

Special Article



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NIS & Baltic Countries Look to Join the WTO

Twenty-nine countries are currently in the process of accession to the World Trade Organization. Nearly half of the 29 are the Newly Independent States (NIS) of the former Soviet Union, and the three Baltic countries—Estonia, Latvia, and Lithuania. The accession has great potential to increase trade that would benefit current WTO members as well as the acceding countries.

The Baltic countries and 10 of the 12 NIS—Russia, Ukraine, Kazakstan, Belarus, Uzbekistan, Kyrgyzstan, Moldova, Armenia, Azerbaijan, and Georgia (Turkmenistan and Tajikistan are the exceptions)—have begun the application process. Since these countries are high-cost producers of agricultural goods, particularly livestock and other high-value products, U.S. agriculture could benefit from this trade expansion through increased exports. With exports to these countries already expanding, the main benefit of WTO accession, both to the acceding countries and to their trade partners, would be to restrain growing protectionist pressure which, if unchecked, could impede growth in NIS and Baltic trade. As the NIS and Baltic nations establish more market-oriented economic systems integrated into the world economy, their producers are increasingly exposed to foreign competition, and producers' response has been to lobby strongly for protection.

The U.S. and other WTO members would also benefit from more transparent and predictable trade regimes in the acceding countries, based on WTO rules. Specific membership advantages to the NIS and Baltic countries are most-favored-nation trade

status vis-à-vis all other WTO members, access to the WTO dispute resolution process, and the right to participate in future negotiation rounds.

However, joining the WTO is a lengthy, involved procedure. An applicant country's trade regime, economic policies, and laws must be reviewed by a WTO working party to determine its compliance with WTO rules, and bilateral negotiations on market access for trade in goods and services must be completed. Out of the working party meetings and bilateral negotiations (between the acceding country and individual WTO members) come the applicant's terms of membership—i.e., its Protocol of Accession.

Assessment of NIS and Baltic policies in the context of WTO rules is complicated by the transitional nature of these countries' economies. For agriculture, several problematic issues—e.g., state trading activities, food safety and product standards, and

NIS and Baltic Countries Comprise Nearly Half of WTO-Accession Applicants

Country	Population (1995)	GDP (1994)
	Million	\$ billion
NIS and Baltics		
Armenia	4	8
Azerbaijan	8	14
Belarus	10	53
Estonia	2	10
Georgia	6	6
Kazakstan	17	55
Kyrgyzstan	5	8
Latvia	3	12
Lithuania	4	14
Moldova	5	12
Russian Federation	150	721
Ukraine	52	189
Uzbekistan	23	55
Subtotal	287	1,158
Others		
Albania	4	4
Algeria	29	97
Cambodia	11	6
People's Republic of China	1,203	2,979
Croatia	5	12
Former Yugoslav Republic of Macedonia	2	2
Jordan	4	17
Nepal	22	22
Oman	2	17
Saudi Arabia	19	173
Seychelles	0*	0**
Sudan	30	24
Taipei	22	257
Tonga	0*	0**
Vanuatu	0*	0**
Vietnam	74	84
Subtotal	1,425	3,695
Total	1,713	4,853

*Less than 50,000. **Less than \$50 million.

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the level of domestic support to the farm sector—are common to most NIS and Baltic accessions. These issues arise mainly because the countries' policies are still to a large degree geared to the nonmarket system of the former Soviet Union.

Trade Gains From WTO Accession Are Potentially Large

The basis for mutually beneficial trade between countries based on *comparative advantage* is that a country benefits from exporting those goods which it produces relatively efficiently—i.e., at a lower cost—and imports goods it produces less efficiently. But during the Soviet regime the state was not very interested in trade gains that could be obtained by specializing in the production and export of goods with significant international cost advantages.

The USSR's goal was to be as economically self-sufficient as possible—imports were used to fill shortfalls in the economy-wide plan of production, and exports were used to pay for needed imports. The Soviet economy was not well integrated into the world economy, and its production technologies were typically inferior to those of the West. As a result, large differences in relative costs of production for goods inevitably existed with other countries—i.e., strong potential existed for increasing mutually beneficial trade based on comparative advantage.

The USSR was a low-cost producer of natural gas relative to world market prices, a medium-cost producer of machinery and equipment, and a generally high-cost producer of agricultural goods—especially meat. The USSR would clearly have benefited from trading more low-cost goods for high-cost products. For example, for an additional unit of meat not produced (a unit of a good is defined as the amount that would sell for \$1 on the world market), the USSR could have used the 2.5 rubles of resources saved to produce 25 more units of natural gas. If exported, the gas would have earned \$25 on the world market. With this money, the USSR could then have imported 25 units of meat, resulting in a substantial *net* gain from trade of 24 units of meat. Although the Soviet Union was a fairly large exporter of natural gas, it would have benefited from producing and exporting even more gas, and from producing less and importing more meat.

Just as the USSR was a low-cost producer of natural gas and a high-cost producer of grain and meat relative to the world market, a number of non-USSR countries that produced for export were high-cost producers of natural gas and low-cost producers of agricultural goods relative to the USSR. These countries would have gained from exporting more meat to the USSR in order to purchase more natural gas.

The greater the difference between relative production costs for various goods, the greater was the potential for the USSR to expand profitable trade based on comparative advantage. Economywide, Soviet relative costs of production differed substantially from the prices of goods traded on the world market, indicating that the country's foreign trade was far below the level

USSR Had a Significant Comparative Advantage in Producing Natural Gas Over Grains and Meat

Product	Production cost*
	<i>Rubles</i>
Natural gas	0.1
Machinery and equipment	0.5
Grain	1.2
Meat	2.5

*Estimated cost in rubles in the Soviet Union of producing an amount of a good (or product group) that sold for \$1 on the world market during the 1980's. Costs were calculated using standard method developed in the West for computing full economic cost of producing goods in the USSR.

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that would have maximized gains from trade based on comparative advantage.

A good example of Soviet trade at odds with comparative advantage involved agriculture. Although the USSR was a high-cost producer of meat relative to grain, during the 1980's the country imported large amounts of grain rather than meat. This behavior was inconsistent with its comparative advantage, but was initiated as a matter of state policy beginning in the early 1970's when the Soviet regime decided to substantially increase the livestock sector. From 1970 to 1990, Soviet output of meat and other livestock products rose by about 50 percent. The increase was achieved, however, only at very high costs of production. The Soviets were pushing the growth of livestock production throughout the country, but particularly in northern regions. These areas lack agriculturally rich land; have cold climates, which means a shorter agricultural season as well as high heating costs for livestock; and are grain-deficit producers, requiring most feed to be transported in from other areas.

Since economic reform began in the early 1990's, the NIS and Baltic countries have substantially reduced both their livestock sectors and their grain imports, and have increased meat imports. In 1996 these countries imported over 2 million tons of meat from outside the region, compared with average annual meat imports of about 850,000 tons during the 1980's.

Although the NIS and Baltic region as a whole appears presently to have a comparative disadvantage in agriculture, favorable land and climate in certain countries within the region probably give those countries some comparative advantage in agriculture. Ukraine and Kazakhstan in particular are likely to be net agricultural exporters, especially of grain.

Since reforms began, the structure of NIS and Baltic trade has been changing, especially in agriculture, but the region has not yet exploited its full potential for expanding trade according to comparative advantage. In real terms, aggregate NIS trade with nations outside the region is not much greater than during the Soviet period, and has actually fallen in real terms for most imported items.

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How a Country Joins the WTO

The WTO builds on its predecessor, the General Agreement on Tariffs and Trade (GATT), by incorporating the results of the Uruguay Round (UR) of trade negotiations, which strengthened existing rules and introduced new disciplines in the areas of trade in services and intellectual property rights (AO December 1996). All UR agreements plus the amended version of the GATT (known as GATT 1994) form the basis for accession negotiations. As a result, accession to the WTO has become more complex.

Article XII of the Final Act—the legal document containing the texts of all provisions agreed upon during the UR—states that any country or separate customs territory with full autonomy in formulating trade and economic policy can accede to the WTO, under conditions negotiated by the acceding country and WTO members. The accession process begins when a country requests the formation of a working party to consider its application. The working party, open to all WTO members, reviews the applicant's trade and economic policies to assess their consistency with WTO rules and to develop the terms of accession. This process helps member countries better understand the applicant's policy regime and its ability to abide by WTO trade rules. The working party also provides a forum for members to identify areas where the applicant should make changes to conform with WTO rules.

Simultaneous with the working party process, bilateral negotiations are held between the acceding country and interested individual WTO members. In agriculture, these talks focus on establishing commitments for market access, internal support, and export subsidies, and on related issues such as sanitary and phytosanitary (SPS) measures. Generally speaking, the working party process does not end until all bilateral negotiations are completed.

One reason trade has not grown more is the general political and economic disruption that followed the breakup of the Soviet Union, as well as the disturbance to trade created by countries having to establish their own currencies. Also, in the years immediately following independence, all NIS countries restricted exports severely, imposing complete bans for some goods, particularly foodstuffs. Fearing material shortages, governments wanted to keep output within the country. The drop in imports was largely the result of two developments: a fall of more than 50 percent in consumer real income following price liberalization—the lead policy of economic reform—and weak currencies that kept import prices high.

However, conditions impeding trade in the post-independence years are gradually being corrected. Political and economic uncertainty has diminished, new national currency markets are functioning better, and most export controls have been eliminat-

The U.S. government, in preparation for bilateral negotiations, posts a request in the *Federal Register* for public comments on a country's accession and consults with the private sector to identify priority areas. Based on responses, an inter-agency committee, chaired by the Office of the U.S. Trade Representative, develops a formal U.S. request on tariffs and other trade measures, which forms the basis for negotiations.

Once bilateral negotiations have ended and the working party has concluded its review, a protocol package is prepared which consists of the working party report and a draft of the Protocol of Accession—i.e., the terms of accession and any accompanying special provisions. After the working party approves these documents, they are submitted to the WTO membership for final approval, with a two-thirds vote needed for approval. The applicant country becomes a member 30 days after its acceptance of the terms of accession, either by signature or by submitting proof of ratification, if the country requires legislative approval.

The terms of WTO membership are contained in the Protocol of Accession, which sets out a country's commitments to meet the requirements of all WTO agreements and the GATT 1994. Annexes to the Protocol generally contain special provisions, such as schedules to phase out policies that must be terminated by the date of membership.

Commitments to bind and reduce tariffs on agricultural products, negotiated bilaterally, are consolidated into the Agricultural Country Schedule and annexed to the Protocol. This schedule also contains commitments on export subsidies and domestic support. An acceding country must negotiate market access commitments for trade in other goods and for services, which are also annexed to the Protocol.

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ed. Real incomes in most NIS countries are rising, and national currencies have been appreciating in real terms.

Since economic conditions for trade expansion are improving, the main benefit to both the world economy and the NIS and Baltic countries from the latter's membership in the WTO would be to check growing pressure within the acceding countries for trade protectionism. Currently, import restrictions in most NIS and Baltic countries are not particularly onerous—for agriculture or economywide. In Russia and Ukraine, tariffs for most agricultural imports range from 10 to 30 percent, and quantitative restrictions on imports are virtually nonexistent, at least for now.

The relatively moderate nature of official trade controls is a legacy of the Soviet period. Under central planning, the state's strict monopoly over foreign trade insulated domestic producers from the world economy, making conventional trade policy instruments such as tariffs and quantitative controls irrelevant.

However, market reform has exposed producers, not only in agriculture but throughout the economy, to new pressures, requiring them to sell their own output, find their own financing, and meet the challenge of foreign competition. Faced with these pressures, agricultural and industrial producers throughout the region are lobbying actively for greater protection. Tariffs on agricultural imports have been growing, and several countries have enacted legislation that provides for the introduction of agricultural import quotas and other nontariff barriers to trade.

WTO accession would counter protectionist pressure and encourage the restructuring and growth of trade along the lines of comparative advantage. WTO membership would lock the NIS and Baltic countries into maximum allowable tariffs for agricultural imports, forbid most types of quantitative trade controls, and set upper bounds for state support to agriculture. Accession would also make NIS and Baltic trade policies more transparent and predictable.

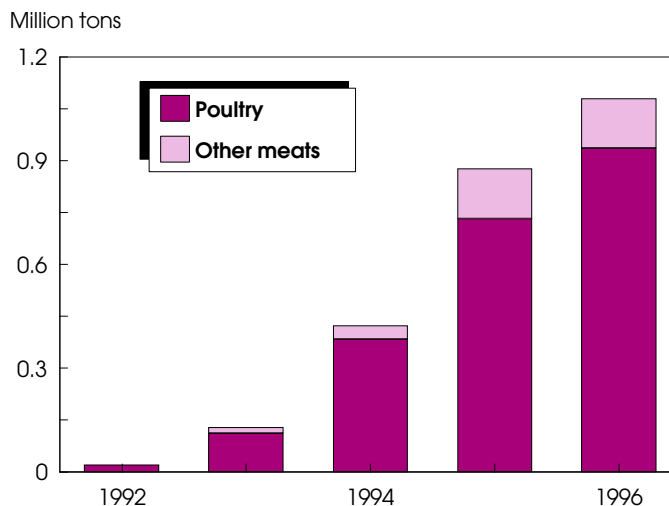
WTO membership would also bring the acceding countries some specific advantages: instant most-favored-nation treatment and access to the WTO dispute mechanism, an important tool for smaller countries with less economic "muscle." For example, access to the WTO dispute mechanism would be useful given the charges of dumping made by various countries against NIS nations, often resulting in import restrictions—as in the case of Russian fertilizer exports to the EU. Entry into the WTO would also provide a seat for the acceding countries at the negotiating table, allowing them to influence future WTO trade rules.

The growth of NIS and Baltic agricultural trade that WTO membership would promote would benefit U.S. agriculture. The severe contraction of the NIS and Baltic livestock sectors during reform has substantially reduced the region's large imports of grain, soybeans, and soybean meal used as animal feed, which has hurt U.S. exporters of agricultural bulk products (*AO* January-February 1997). However, the region has become a fast-growing market for processed and consumer-ready high-value food products, particularly meat. Since 1992, U.S. annual exports of processed agricultural goods to Russia have risen in value from less than \$100 million to about \$1.2 billion. For the past 2 years Russia has been the top destination for U.S. poultry meat exports, which in 1996 reached nearly 1 million tons.

Accession Linked To Market Reform

To a large degree, progress in WTO accession is correlated with the extent to which NIS and Baltic countries have implemented market reforms. Estonia and Latvia, two of the most reformist countries in the region, have made the most progress in their accession bids and have already begun to formulate their Protocols of Accession. Russia and Ukraine, two of the largest NIS countries involved in WTO accession, have already had several working party meetings and bilateral consultations, and the next working party meetings are scheduled for the end of 1997. However, countries which are moving much more slowly on reform, such as Belarus and Uzbekistan, are only beginning the accession process.

Poultry Leads Meteoric Rise in U.S. Meat Exports To NIS/Baltic Countries



Totals include fresh, frozen, prepared, and preserved meat.

Economic Research Service, USDA

Several potentially problematic issues involving agriculture are common to most of the NIS and Baltic accessions. These issues, which arise largely because of the transitional nature of the economies of these countries, can make it difficult to evaluate their agricultural policies in a WTO context. Two of the main areas of concern are market access—i.e., the extent to which a country permits imports—and internal support for domestic agriculture.

Market access. Most NIS and Baltic countries, including Russia and Ukraine, have not imposed quantitative restrictions on agricultural imports. Instead, current official restrictions consist primarily of tariffs. This is consistent with the spirit and rules of the WTO.

Although in some NIS and Baltic countries *agricultural tariffs* have been rising, they are not yet overly restrictive. As mentioned earlier, in Russia and Ukraine, tariffs for major agricultural imports range from 10 to 30 percent. However, some NIS and Baltic countries, including Russia and Ukraine, have introduced minimum per-unit tariffs in addition to *ad valorem* taxes. The combined tariffs may raise the effective *ad valorem* rates, which creates difficulties in negotiating and then policing the eventual *bound* tariff rates (set at a rate that cannot be exceeded). In addition, several countries have enacted legislation providing for introduction of import quotas and other nontariff barriers to trade, measures which generally violate WTO rules.

Another area of concern involving market access is *state trading*. In WTO parlance, state trading is the exercise of special rights and privileges granted to government or nongovernmental enterprises, which alter the direction or level of trade. All WTO members are required to report their use of state enterprises to conduct trade (*AO* December 1996).

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Almost all countries in the region have abandoned complete state control over agricultural trade. However, in the less reformist countries such as Belarus and Uzbekistan, the state maintains strong influence over both the direction and volume of agricultural trade, often through agencies privatized in name only. In Russia and certain other countries, many of the foreign trade organizations that handled trade under the Soviet regime have been converted to joint-stock companies in which the government continues to hold (sometimes majority) shares. In Russia, this relationship has given impetus to granting tax exemptions for such companies, as well as exclusive buying/selling rights and concessional credit tied to specification of import sources.

Since these privileged organizations are largely importers rather than exporters, the concessions granted them have probably increased, rather than decreased, the region's imports of foodstuffs. However, as the array of policy instruments to protect domestic producers declines, the relationship between the state and these organizations, as well as other types of state trading arrangements, could be used as an indirect way to reduce imports.

Agricultural trade among NIS countries also raises questions of state trading. Much of this trade is conducted through interstate agreements that specify trade volumes. Frequently an NIS country will authorize a single company or agent to fulfill an interstate trade agreement. The use of a sole agent to trade on a non-commercial basis may constitute state trading, while inter-state barter trade agreements raise questions of trade discrimination.

Sanitary and phytosanitary (SPS) issues and technical barriers to trade (TBT) are further areas of concern regarding market access. The NIS food safety and standards systems, largely retained from the Soviet period, might not fully comply with WTO rules. Most of these countries lack a single inquiry point for information on standards and SPS requirements, and there is currently inadequate transparency in the adoption and notification of measures, as required in the Uruguay Round SPS and TBT agreements.

For example, Russia has introduced new labeling requirements (scheduled to go into effect on May 1, 1997) for foodstuffs and a holographic mark of conformity for certain items. These regulations were not introduced in a manner consistent with WTO provisions on TBT's, as the transparency requirements were not observed and a transition period was not included in the original legislation.

A final problem concerning market access in some countries, particularly Russia, is the issue of *regional controls on agricultural flows*, which are often tied to the continued power of procurement by local authorities. While most controls in Russia and Ukraine have been on the export side, some localities (such as the Sverdlovsk and Magadan regions in Russia) are turning to tariffs or other import restrictions. Although most of these prac-

tices violate federal law, central government weakness vis-a-vis the regions has made enforcement difficult. WTO members will seek assurances that regional policies will not undermine trade concessions negotiated with the federal government.

Internal support. The NIS and Baltic nations will be required to commit to reductions in domestic support of agricultural production. Each country must quantify its level of domestic support by calculating and submitting to the WTO an annual Aggregate Measure of Support (AMS).

Each country commits to reduce domestic support from a base-period AMS. For acceding countries the base period is the three most recent years of available data. For each succeeding year, a country's AMS calculation must not exceed a negotiated, gradually declining limit expressed as a percent of the base-period AMS.

Several problems common to most NIS and Baltic countries make it difficult to compute the annual AMS, particularly for the base-period years. These complicating factors include high inflation, capturing support at the sub-national level (which is sizable in Russia), and handling the writing off of state loans to agriculture. Russia's inflation rates in 1993, 1994, and 1995 were 840, 215, and 130 percent, and the rates in most other NIS countries were higher. With inflation, the calculated level of support can differ from year to year, not only because support has changed in real terms, but because prices and monetary values in general have been inflated. If the AMS for a country is to be expressed in its own currency, a common approach to adjust for inflation has been to express all annual values in constant value of a given year.

It is not likely that support to agriculture will prove a major sticking point in accession negotiations, despite the difficulties encumbering AMS calculations. Most NIS and Baltic countries are fiscally weak, with little funds available for agricultural support. Furthermore, state support in the region has fallen substantially from the Soviet period. During the late 1980's, total Soviet budget subsidies to the agriculture and food economy were estimated at about 10 percent of GDP. In contrast, Russia's agricultural support in 1995 from governmental budget expenditure (including tax breaks and soft loans) is estimated at 2-3 percent.

The specific terms of WTO accession are important for U.S. agriculture. Emphasis in negotiations will be on ensuring market access opportunities through tariff bindings (setting rates that cannot be exceeded) and the removal of all nontariff barriers to trade. Transparency in how state trading enterprises conduct trade is vital, so that their activities do not circumvent market access commitments. And commitments to comply with rules on SPS measures and TBT's will be sought, to ensure that such barriers to U.S. products are based on science or international standards.

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