

The Impact of Accession to WTO on Economic Development in Least Developed Countries

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ABSTRACT

The essay explores why Afghanistan is willing to join the WTO and comply with the WTO rules; as an LDC country, how the accession to the WTO affects Afghanistan's economic situation. Afghanistan officially joined the WTO in 2016 after a long period of negotiation. Due to the political deadlock, domestic insecurity and the continuous war that happened within the nation that harmed the nation's economy, Afghanistan is one of the representatives of the LDCs. The essay uses the case study method to analyze Afghanistan's accession to the WTO, and the essay hopes to have broader lessons of cooperation between LDCs and the WTO. The result reveals that Afghanistan joined the WTO in 2016 to promote the domestic reforms and speed up the transformation to "a more effective and functioning market economy that attracts investment, creates jobs and improves the welfare of the people of Afghanistan." But the real situation is different from the ideal purpose of the government. We found that Afghanistan wasn't involved in any trade disputes after joining the WTO and was not active in other kinds of trading cooperation due to the fact that many countries are not willing to make economic cooperation with Afghanistan because of their political and social insecurity. We suggest that least developed countries like Afghanistan should first ensure political and social stability and security and then try to increase their production capacity and build a solid infrastructure. In conclusion, the essay deepens our understanding of how domestic politics would affect the cooperation between IOs and countries. Moreover, the essay can be useful for a further policy recommendation for IOs when they want to cooperate with individual countries. Admittedly, the essay is limited because the essay is only analyzing the case of Afghanistan. Further studies can look into other countries of LDCs.

Keywords: *Afghanistan, LDCs, THE WTO*

1. INTRODUCTION

The topic we will discuss is Afghanistan's willingness to join THE WTO, its compliance with the WTO rules, and the prospect of the cooperation of Afghanistan in the WTO. The research question is complex and unique since the country represents other least-developed countries aiming to facilitate domestic growth by joining authoritative trade organizations.

35 out of 46 least-developed countries designated by the United Nations have joined the WTO. According to the official website, eight more LDCs are negotiating to join as well. They are Bhutan, Comoros, Ethiopia, Sao Tomé & Príncipe, Somalia, South Sudan, Sudan and Timor-Leste. As one of the LDCs, Afghanistan has been through 11 years of negotiation and domestic reforms before the formal accession on December 17, 2015 [1].

We will argue in this article that Afghanistan joined the WTO in 2016 to promote the domestic reforms and speed up the transformation to "a more effective and functioning market economy that attracts investment, creates jobs and improves the welfare of the people of Afghanistan." [2] Basically, that's the reason why Afghanistan aimed to join the WTO even though many of the required reforms are very costly for the government. But due to Afghanistan's special political and economic situation, the initial purpose of joining the WTO and the real benefits is somehow various – Afghanistan may not get much benefits to draw from the membership of the WTO. Just as Michael Kugelman, a South Asia expert at the Washington-based Woodrow Wilson Center, mentioned, "Even if THE WTO membership opens up new markets and supply chains for Afghanistan, few will want to engage it on economic levels if the country is too

unstable to sustain such transactions. The biggest issue, therefore, is security." [2] By analyzing the case of Afghanistan, we would also discuss the future prospect and give advice for other LDCs who are planning to join the WTO.

The essay is divided into several sections. After the introduction, the next section will be a literature review; in the following section, we will discuss Afghanistan's compliance to the WTO's rules; then we will discuss the post-accession economic situation of Afghanistan; the last section is the reflection and discussion.

2. LITERATURE REVIEW

In 2015, Afghanistan was marked as the world's second most corrupt country by Transparency International. As a landlocked least-developed country, its trading partners must afford a higher cost of doing business than transit countries. Based on the special background, Sayed Nasrat and Abdul Tamim Karimi analyzed the pros and cons of Afghanistan's accession. Due to the country's geographical advantages (the heart of the Silk Road), the accession is expected to significantly boost trade opportunities and economic growth. However, the government still needs to address the following three problems: "securing the peace deal, addressing pervasive corruption and improving supply chain quality of local products" [3]. Mobbariz has also done the cost-benefit analysis of the accession of Afghanistan based on the WITS/SMART model. The results suggest that the tariff reforms bring positive welfare gains for the consumers but overall negative consequences to the government revenue and trade balance. Based on the empirical study, Mobbariz suggested the WTO to allow LDCs to preserve more policy freedom. Meanwhile, he expressed concern about the post-accession challenges that Afghanistan may face. He explained how the country should deal with the challenges and utilize the resources provided by the platform [4]. Many scholars expressed similar concerns towards the accession. For example, Alexey Yusupov from the Afghanistan office of the German foundation Friedrich-Ebert-Stiftung (FES) described the situation as "Cart before the horse", stating that it is hard for the Afghanistan government to join such organization while it is still struggling for sustained economic growth and stable domestic environment [2].

Some voices doubt the effectiveness of the WTO from the perspective of LDCs. Naseer and Noreen's research states that there is an asymmetrical developed pattern between rich and poor. Core states always control the economic system using its strong power, which leads to the greater disparity. In comparison, LDCs are more dependent and passive. The WTO stands from the perspective of core states, or developed states, representing their interest, which makes LDCs be in a more inferior position than boost their development.

Using a theoretical approach and empirical analysis, the authors concluded that the accession to the WTO actually brings adverse effects to Afghanistan and Pakistan unless the WTO itself goes through structural reforms. For instance, the compliance to the WTO's rule may affect the livelihood of Pak-Afghan people who live on the profits made by transit and trade of agricultural products in Federally Administered Tribal Area (FATA). In addition, the author doubted whether the government is ready for the WTO's policies due to its weak agriculture system, infant industrial bases, etc. [5]. Daniel Flentøav and Stefano Ponte's research comes out with a similar conclusion. The authors stated that the WTO should help LDCs to integrate into global value chains (GVCs), but the current WTO agreement does not seem beneficial to the development of LDCs. In addition, the authors also emphasize the importance of building a solid infrastructure system and improve the production capacities for the government [6]. However, some scholars like Rahman hold a more positive attitude towards the effectiveness of the WTO. Rahman believes the WTO provides other LDCs with a start point of economic growth; legal and institutional reforms and the adaptation to the WTO rules actually benefit the country in the long term, even though they may face short-term losses.

3. COMPLIANCE TO THE WTO

Before joining the WTO, Afghanistan has made a variety of market compliances, including 9 bilateral market access agreements on goods and 7 bilateral market access agreements on services in conclusion.

For the market of goods, Afghanistan has undertaken tariff commitments that bind tariff rates for all imported products on average at 13.5 per cent. For agricultural products, this average is 33.6 per cent, while for non-agricultural products, the average is lower, with a percentage of 10.3. Furthermore, Afghanistan committed to joining the Information Technology Agreement (ITA) upon accession, a WTO plurilateral agreement provided to participants to completely eliminate duties on IT products covered by it [8]. What is the most notable is the IPR reforms Afghanistan made for their accession. In 2009, Afghanistan replaced laws about intellectual property rights regarding trademarks of 1960 with their new ones [9]. However, the new law still didn't match the standard of TRIPS because it was silent on licensing trademarks and is ambiguous on both trademark validity and user requirements, which may cause misuse of legal loopholes and lead to corruption [9]. Afghanistan government solved the deficiencies by bringing changes or adding annexes in the old laws related to IPRs. For example, provisional measures and supports for defendants lacking in the 2009 registration were added as annexes to the Commercial Procedure Code or published the registered trademark in the Official Gazette.

The reforms at the service market include horizontal commitments and policies regarding consumption abroad and commercial presence. For the horizontal commitments, foreign citizens or juridical persons will have a right to lease land from the state for up to 90 years or even extend into longer years. Afghanistan will procure Afghan services similar and equivalent in quality, quantity, and price to global services rather than independent ones. Entry for intra-corporate transferees and persons responsible for establishing commercial presence in Afghanistan will be permitted for one year, which can also be extended by annual. Sellers and persons who provide services without establishing a commercial presence in Afghanistan can receive 180 days during one year in this nation. The country agreed to have no limitations on consumption abroad and commercial presence. On insurance of risks relating to marine shipping, commercial aviation and space launching and freight, including satellites, with such insurance to cover any or all of the following: the goods being transported, the vehicle transporting the goods and any liability arising therefrom; and goods in international transit - there will be no market access and national treatment limitations, in six and ten years after accession, respectively.

Afghan and foreign natural persons and legal entities will have the right to engage in import and export activities. To become an importer of record, a natural person or a legal entity located abroad will need to either: (i) enter into a purchase-sale contract with an Afghan legal entity or natural person in Afghanistan; or (ii) register as a legal person operating in Afghanistan. All laws and regulations relating to the right to import or export goods and all fees, charges or taxes levied on such rights will conform to Afghanistan's WTO obligations.

Compliance on transparency of trades includes notification and publication. All laws and regulations regarding the application and level of fees and charges imposed by Afghanistan on or in connection with importation and exportation will be published by the Ministry of Commerce and Industries in a single location or website. Any laws, regulations, or other measures subsequently enacted by Afghanistan, required to be notified pursuant to the WTO Agreement, will also be notified to the WTO. They will also report and update any changes of its duties, taxes, fees and charges applied to exports on the day of their publication, at least 30 days before any such changes enter into force [8].

As Afghanistan made reforms above, it is looking for reports of increased economic situation from its changes. Whether the situation has improved as they expected will be discussed in the next section.

4. THE SITUATION OF AFGHANISTAN AFTER JOINING THE WTO

Up until 2021, Afghanistan has been in the WTO for five years, and there are various achievements after their accession while problems that haven't been solved or can't be solved still exist.

According to DG Okonjo-Iweala, Afghanistan's accession to the WTO is "a story of the opportunities for these people to realize their economic potential and improve their livelihoods" [10]. Since accession in 2016, various ministries have been working on some 84 commitments, of which 50 have been met, and the remaining 34 are being worked on [11]. For the GDP growth of the nation, joining the WTO gave Afghanistan the right focus of development. Figure 1 identifies the value-added sources in the Afghan economy in 2010–19 based on three broad categories – agriculture, industry and services. Services can be seen as the leading source of value in the economy, which has more than double the contribution of agriculture and industry altogether. However, the percentage of the industry has decreased since Afghanistan joined the WTO in 2015. This is very important because it shows that Afghanistan started to realize the need to pay adequate attention to services sectors and the policies that influence them. It proved that the change truly worked for the growth of GDP.

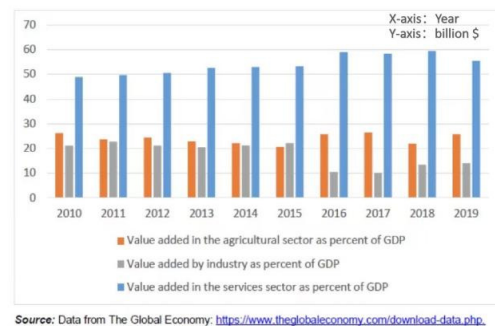


Figure 1. Value-added in agriculture, industry and services (2010–19) [11]

Afghanistan has consistently had a large export-import gap. Over the past few years, the country has increased its imports, yet exports remained relatively constant, subsequently increasing this trade gap. After the accession of the WTO, Afghanistan has achieved an obvious increase in its secure, stable and non-discriminatory access for exports, just as it expected before joining. According to figure 2, there's a significant pattern of increase in exports, especially in the year of 2018 and approaching to \$900 million in recent 2 years. However, it also shows that there's a decrease in exports from 2018 to 2019, meaning that joining the WTO does not bring the least developed countries a long-term increase in exports.

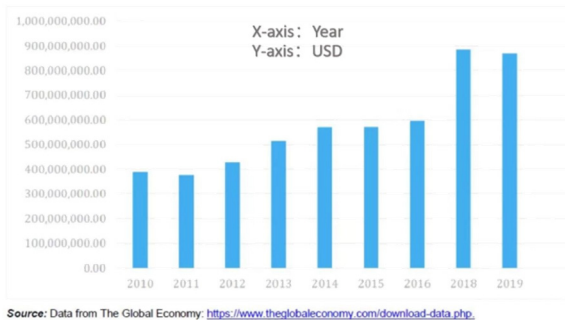


Figure 2. Total exports of goods and services (2010–16 and 2018–19) (USD millions) [11]

Afghanistan's export structure is dominated by agricultural products and some types of light manufacturing such as textiles and carpets. Almost 50% of exports are agricultural products (fruit and nuts, and peel of citrus fruit or melons). A further 25% of total exports are accounted for by lacs, gums, resins and vegetables. As for export destinations and cooperative partners, the Republic of India accounted for almost half of Afghanistan's exports, followed closely by Pakistan. Together, these two countries take 80% of all Afghanistan's exports [11]. These situations lead to a serious issue of Afghanistan—as the importers and export products are so single and lack diversity, it's very vulnerable on their future development because they can be influenced easily and don't have any backup options.

More work is still needed, particularly in the sector of security and corruption, which are the major concerns for foreign investors and the public that can affect their cooperation abroad. The economic hardship is largely due to the continued political deadlock and worsening security situation in the conflict-ridden country [2]. The domestic instability and continuous war within the government when the country is confronting an increasingly resilient insurgency have undermined the Afghan citizen's confidence in their economy [2] and makes foreign investors lose the confidence and willingness to cooperate with Afghan companies. This situation is still worsening as the Taliban took control over the country and created social panic and unrest and protests against their violent and immoral actions. Corruption is also a serious problem among governments in Afghanistan that makes everyone fear investment and trade. The WTO cannot solve these fundamental issues with their agreements, so it's essential to first improve its security and corruption situation and then consider other aspects of economic development.

5. REFLECTION AND DISCUSSION

As we discussed in part 4, joining the WTO does bring Afghanistan several benefits -- boosts the GDP growth and increases the country's exports. In addition, as confirmed in the article of Rahman, the domestic reforms before the accession helped Afghanistan transfer to a

more effective, international-standard legal system that benefits the country for the long term [7]. For example, the government did the reformed trademark law to meet the standard of Trade-Related Aspects of Intellectual Property Rights, modifying the law in many different aspects. However, economic progress could be largely influenced by domestic politics. Especially for LDCs, the development is limited due to the low capacity.

More efforts should be made to maximize the benefits of joining the WTO, eliminate foreign investors' concerns, and gain more trade opportunities. We have the following suggestions for LDCs. First, maintaining a stable domestic environment is the top essential issue, which fundamentally impacts the country's development. Afghanistan's suffering from the political deadlock and insurgencies impacts the trades with foreign partners and people's trust in the government. Just as Michael Kugelman has mentioned, "even if the WTO membership opens up new markets and supply chains for Afghanistan, few will want to engage it on economic levels if the country is too unstable to sustain such transactions. The biggest issue, therefore, is security." Afghanistan government has such limited military power thus requires back up from the U.S. government. As a result, the limited power also reflects political insecurity [2]. Second, the country should always pay more effort into the infrastructure and improve their production capacity, which confirmed the points made by Daniel Flentøav and Stefano Ponte [6]. A solid infrastructure system always provides essential supports for trade and economic development. As for the WTO, it did a lot of jobs to better help LDCs connect to value chains. The WTO tries to identify the most effective way to finance the country, whether with official development assistance, FDI, etc. Also, from a private sector's view, lead firms and suppliers could undertake different activities to help integrate the value chains [12]. The WTO is responsible for providing further instructions and policy's implements to help LDCs better utilize the resources and achieve greater economic progress.

6. CONCLUSION

The essay has firstly reviewed the existed researches on Afghanistan's accession to the WTO. Then, by analyzing Afghanistan's compliance to the WTO's rules and the current economic situation, we conclude both improvements and drawbacks of the accession, as well as the limitations faced by Afghanistan's government. At last, based on the empirical evidence from Afghanistan, we give several suggestions for LDCs and the WTO to further promote the cooperation and economic progress of LDCs. Thus, the essay deepens our understanding of the relationship between Afghanistan and the WTO and also includes political suggestions.

However, there are several limitations regarding our case of Afghanistan. Since we are talking about solutions

to economic issues for least developed countries, Afghanistan may not have the same situation as all other least developed countries. Some countries have geographical barriers that may cause their slow development, which can't be represented and explained using the example of Afghanistan with issues regarding politics or social unrest. Further studies can focus on other least developed countries that are in the negotiation or have the membership of the WTO.

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