Should Ethiopia Join the WTO? A Cost Benefit Analysis

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March 18, 2020

Beginning in 2003, Ethiopia started the accession process into the WTO. The rigorous process has drawn on for an extended period of time despite the strength of the Ethiopian economy, as shown by its GDP. As of 2018, with the Ethiopian government on the verge of capitulating to foreign sentiment and ascension to the WTO seems imminent, we must question whether this decision will truly be a "win" for Ethiopia's economy and its people. To determine whether ascension to the WTO will be a net benefit for Ethiopia there are three major points to consider: 1) The current state of the Ethiopian Economy, 2) The empirical benefits of WTO membership, 3) and the empirical costs of WTO membership.

The current economy of Ethiopia is a mixed and transition economy with a large public sector. This means that Ethiopia's government exercises some control over certain industries, primarily banking, telecommunication, and the transportation sectors, and has a centrally planned economy. The government is currently in the process of privatizing many of the state-owned businesses in

favor of moving toward a free market economy. Ethiopia is already one the fastest-growing economies in the world and has a strong domestic market due to it being the second most populous country in Africa. To keep pace with its population growth Ethiopia must create hundreds of thousands of jobs each year.

Joining the WTO comes with a range of advantages, one of which is lower prices for consumers. Removing tariffs enables consumers to buy cheap imports. Tariffs increase the prices of imported goods. Because of this, domestic businesses are not forced to reduce their prices to compete with foreign producers, and domestic consumers are left paying a higher price for goods as a result. Under economic theory, imposing tariffs on foreign companies allows for less efficient domestic companies to exist when they would otherwise be put out of business. While this is bad for domestic consumers and foreign producers it is good for domestic producers and the domestic government. The WTO often cites the benefits of reduced tariffs from a consumer prospective and how it boosts overall global trade levels. In fact, since the adoption of the WTO after World War II global trade has increased by over 25%.

Free trade also encourages competitiveness on a global scale. It is argued that free trade is better than protectionist trade policies because it offers consumers the most choices and the best opportunities to improve their standard of living. Competition on a global level also forces companies to innovate and create better products to bring to market, keeping prices low and of a higher quality in order to maintain market share. The argument here is that by welcoming free competition, Ethiopia will be able to identify the sectors in which it has a relative production advantage and improve upon them. Free competition could also spur innovation in certain industries, which the Ethiopian government sees as important. This innovation would either force the industry to compete on a global level or to carve out a specific niche in order to survive. If an industry is unable to remain competitive and fails when opened up to global competition it would be seen as a positive development as it means that the inefficient industry was being propped up by the government.

Another advantage of promoting free trade involves the economic law of comparative advantage, which states that free trade will enable an increase in

economic welfare because countries can specialize in producing goods where they have the lowest opportunity cost. If a country such as Ethiopia is relatively better at producing coffee than bananas, it makes sense to put more resources into producing coffee, and to export some coffee in order to pay for imports of bananas. This would remain true even if Ethiopia was also the world's best banana producer because it would have more of both products that it would without conducting trade. For this system to work a country need not be the best at anythingto benefit from trade. A country just needs to focus on specializing in what it does relatively best. The result of this type of specialization is that countries can enjoy a higher total output and level of consumption than what would have been possible domestically.

Lastly, free trade encourages firms to specialize and produce a higher quantity of goods due to economies of scale. This primarily applies to industries which suffer from high fixed costs, such as car and airplane manufacturing. At its heart economies of scale means that at a higher level of output, it will require less labor and fewer resources per unit of output than it required at the smaller scale. This encourages countries to specialize and increase their operations to benefit from the lowered costs associated with economies of scale. This benefits global trade by improving world productive efficiency. Ethiopia can benefit from economies of scale by focusing its investments into larger and more productive manufacturing and industrial facilities. This is already in line with the current government's development plans and would allow for higher output levels making Ethiopian manufactured goods even cheaper to produce. This lowered cost per unit of output makes Ethiopia more competitive on a global level and will help attract foreign investment and business opportunities.

The WTO serves as an independent arbiter to settle trade disputes between member countries. Over the past twenty years there have been an increase in the number of trade disputes that have been brought before the WTO, showing that the WTO is trusted as a forum to resolve such disputes. In fact, the dispute settlement function of the WTO has been so successful that an increasing number of highly complex cases are being brought before it, causing strain on the system. LDCs benefit, in theory, from the dispute resolution system because its decisions are made on the basis of established rules, not economic power. Ethiopia stands to benefit from joining the WTO because as an LDC it

will be protected by the rules established by the WTO as a whole when it comes to trade disputes. Being able to approach the WTO dispute settlement authorities would allow for Ethiopia to make their case against larger and more developed nations on somewhat even footing.

Joining the WTO also comes with several distinct disadvantages, which the Ethiopian government must consider. One of the most common ways in which the success of the WTO is measured is in the volume of world trade. The results if viewed under this lens are excellent, with world trade having increased by over 25% in the last four years. But the fact is that the benefits of increased trade are not shared by developing countries like Ethiopia. The least developed countries ("LDCs") represent over 20% of the world population yet only generate 0.03% of world trade. The WTO, while stating that it seeks better outcomes for all its members, is run by developed industrial nations such as the United States. The uniform rules implemented by the WTO fail to address that different countries have different economic circumstances and needs. These disadvantages seem to outweigh the benefits of membership in the WTO based on Ethiopia's current economic situation and the goals of its government.

The most favored nation (MFN) clause results in an unfavorable trade balance for developing nations. The most favored nation ("MFN") clause of the WTO means that a country that has been granted MFN status may not be treated less advantageously than any other country with MFN status by the promising country. All members of the WTO agree to give each other MFN status. By joining the WTO Ethiopia would have to give all members MFN status. By granting other countries MFN status Ethiopia's own economic objectives would likely suffer due to a potential reduction in exports in "infant" industries it is seeking to bolster and invest in.

Ethiopia is in a stage of development where it would benefit more from adding value to the products it produces and exporting those products overseas or selling into its thriving domestic market. If Ethiopia joins the WTO it wouldn't be able to continue exporting goods produced in its less competitive industries, which it is seeking to grow. It is plausible that the manufacturing sector will continue to thrive even if Ethiopia joined the WTO, but the Ethiopian government does not want to be solely a low-cost manufacturing country. All of

its other exports and even domestic products will be forced to compete with cheaper foreign goods and services if it is forced to reduce its protective tariffs. This could lead to a trade deficit in certain industries, which means that those industries are not developing, and those jobs disappear only to be replaced by low-cost manufacturing jobs. Ethiopia does not need the extra economic growth that the WTO could potentially bring.

The WTO would kill Ethiopian "infant" industries. By joining the WTO Ethiopia will be asked to liberalize parts of its economy. This is the antithesis of the government's current objective for the economy which hopes to improve certain key sectors such as the financial, telecom, professional, distribution, and education industries. Ethiopia cannot allow this to happen or it risks those sectors disappearing in the face of foreign competitors who excel in those areas. This would lead to Ethiopia having no choice but to focus on its manufacturing capabilities which will not benefit the country in the long run. Low-cost manufacturing is an industry that is being revolutionized by machines that are more cost-effective than most human capital. It is only a matter of time before even the lowest wage nations cannot compete with the efficiency of machines. Even if this weren't true there are always cheaper countries to produce goods in. It is in Ethiopia's best interests to diversify its economy as much as possible.

WTO has rules restricting Trade Related Intellectual Property (TRIPs) rights. As an LDC country seeking accession to the WTO Ethiopia is required to revise its laws so that they are WTO-compliant. The specific laws that Ethiopia must reform are its intellectual property laws to provide a protection for intellectual properties as envisioned under the TRIP rules. Adopting WTO-complaint laws in this area is not in the interest of Ethiopia, or most LDCs, because it unduly restricts a nation's people access to life-saving pharmaceuticals.

In conclusion, Ethiopia should not hurry to join the WTO by accepting burdensome commitments asked by established incumbent members. Ethiopia need not rush to join, or join at all, because it benefits from preference markets such as the African Growth Opportunity Act ("AGOA") and from bilateral trade agreements with major economies such as China. Ethiopia's economy is growing quickly with little evidence that it intends to slow down in the near

future. Joining the WTO will reduce the diverse economy that the Ethiopian government has been fostering. But if the government feels that WTO membership is necessary, then Ethiopia must take it’s time to negotiate more favorable terms in line with its development status and objectives. In particular, Ethiopia should not make the same mistakes as other newly joined nations and should not agree to undertake higher levels of commitments than is made absolutely necessary by the WTO rules and what other founding LDCs, such as Bangladesh, have made. Specifically, Ethiopia should seek to ensure that tariffs are bound at the highest rates possible. A higher average bound tariff rate means that Ethiopia will have more leverage on an international level, will be able to protect certain key sectors of its economy, and will have secured a major source of revenue. Ethiopia must also negotiate a long transition period for the implementation of accession commitments, such as the TRIPS agreement. This gives Ethiopia the time needed to implement commitments properly and to prepare. Lastly, Ethiopia should take advantage of the Special and Differential Treatment arrangements available to LDCs in order to secure the right to things like agricultural subsidies.

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