

Benefits to Ukraine of WTO Membership

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The benefits to Ukraine of WTO membership are both economic as well as political.

Economic Benefits

The main economic benefit to Ukraine of WTO membership is that it would ensure that Ukraine's trade is not treated arbitrarily and discriminately by other WTO members (such as export quotas imposed on Ukrainian exports and arbitrary anti-dumping investigations.) If this were to happen, there are penalties that the WTO can impose on the other country. For example, at present there is a ban on supply of several Ukrainian metallurgical products to other countries of Europe and the USA, as anti-dumping investigations are continuing. As soon as Ukraine joins the WTO, these investigations and restrictions to exports will be removed.

To obtain these benefits, Ukraine will need to bring its trading practices into agreement with international standards. That is, it would need to comply with WTO trade rules and eliminate many of the subsidies and distortions it currently has (the elimination of these privileges is the main source of opposition).

WTO membership is important for Ukraine because it is a very open economy. Exports represent about 50% of GDP and have been the main engine of GDP growth in the last few years. Membership of WTO would help Ukraine to maintain and diversify its exports. In particular, WTO membership would encourage a more open and liberalized economy. And more open international trade should encourage greater competition, more efficiency and higher growth over the medium term, though over the short term some industries would be negatively affected. Based on international experience, it is now widely accepted that those countries that have sustained export growth will also enjoy higher rates of GDP growth. This is true of the east Asian tigers of Singapore, Hong Kong, South Korea and Taiwan; more developed economies such as Ireland; and countries from more diverse regions such as Chile, Mauritius and China. WTO membership helps. For example, in the 20 years before it joined WTO, China's exports grew at an annual rate of 15 percent; since joining, annual export growth doubled, to 30 percent.

President Yushchenko and Prime Minister Tymoshenko have stated recently the following tangible benefits of Ukraine's membership in the WTO:

- a 1.9 percent surplus in GDP growth rate;
- a \$300 million annual surplus in exports;
- millions of euros to be earned in new markets of commodities and services;

- Ukraine would save \$1.6 billion that it loses every year because its laws are incongruous with those of 148 WTO member countries

The opposition has argued that WTO terms would result in:

- sweeping price hikes;
- a collapse of the national automobile-making industry (with inevitably doubled costs of its produce);
- a sure death of the national agricultural sector;
- a crisis in the metallurgical industry, which accounts for 40 percent of total exports and the lion's share of hard currency revenues;
- serious problems for the bulk of other industries and the banking sector.

It is true that opening an economy can bring short term disruptions to several industries; but international experience show that over the medium term these disruptions are overcome and foreign competition would encourage efficiency, resulting in higher rates of growth and higher employment. In any event, the above claims exaggerate the disruption that WTO membership would create to Ukraine.

In fact, the opposition to WTO membership is more likely due to political and vested interests. For example, for many years, leather producers in Ukraine have opposed the elimination of export duties on live cattle and hide. They just want to have cheap leather here. This draft law has been opposed for years even though a major Government/World Bank study had concluded that these exports duties were responsible for a major decline in exports of these products. Similarly, metal producers do not want metal scrap to be sold abroad. They rather have this metal scrap for their own use here at lower prices.

Similar problems existed with the other laws required for WTO membership: on sugar (opposed by local sugar producers), on foreign banks (opposed by local banks), on foreign Law firms (opposed by local lawyers) and on radio/TV ownership. These sectors have strong backers that are ready to "lobby" in many ways with Rada members.

Political Benefits

Politically, WTO is also important for the current government.

WTO accession can be acknowledged as a major foreign policy achievement of the new government. It is probably the only one that can be implemented before the Parliamentary elections 2006, since the issues of accessing the EU and NATO will take longer.

Membership in the WTO is also a key political step for further European integration. It is the WTO accession that could assist launching negotiations on initiating a free trade zone with the EU, which actually is the first stage of the European integration. If the negotiations are successful, in the near future the integration horizons could be broadened to creation of the customs union with the EU. In fact, membership in the WTO is stated as a priority in all key documents that define issues of cooperation between Ukraine and the EU, including the Action Plan signed in February 2005.

Accession to the WTO can assist Ukraine in modeling appropriately future membership of Ukraine in the Common Economic Space (CES) with Russia, Belarus and Kazakhstan. As a WTO member, Ukraine would find easier to substantiate its current position on trade within the CES.

Ukraine's accession to the WTO before Russia or at least not after it is crucially important. If Russia will be a WTO member earlier, then it could delay the process of Ukraine's accession at least for a year by raising additional requirements.