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ETHIOPIA'S ACCESSION TO THE WORLD TRADE ORGANISATION: IMPLICATIONS ON MARKET ACCESS AND BALANCE OF PAYMENT DISEQUILIBRIUM

A RESEARCH REPORT SUBMITTED TO UNIVERSITY OF THE WITWATERSRAND FACULTY OF COMMERCE, LAW AND MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR AWARD OF THE DEGREE OF MASTER OF COMMERCE IN DEVELOPMENT THEORY AND POLICY

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AUGUST, 2016

DECLARATION

I Ejigayhu Sisay Tefera, declare that this thesis is a result of my own original effort and work, and that to the best of my knowledge, the findings have never been previously presented to the University of Witwatersrand or elsewhere for the award of any academic qualification. Where assistance was sought, it has been accordingly acknowledged.

Ejigayhu Sisay Tefera:……

Date:……

DEDICATION

This work is dedicated to my wonderful husband Fasil Teka Birega and my daughter Abigail Fasil Teka. You were my true courage and strength throughout this period. Thank you for believing in me.

ACKNOWLEDGMENT

- I thank God for giving me the courage and the determination as well as the guidance in writing this thesis, despite all the difficulties.

- I would like to express my gratitude to my supervisor Distinguished Professor Vishnu Padayachee for his great support and encouragement from the inception to finalization of this research.

Abstract

The role of international trade in countries development process is well documented. In this era of globalisation, the notion of free international trade has dominated both the political and economic discourse. It is presumed that integration of poor countries into the world economy will be advantageous to sustain economic development. A growing number of economists however, doubted the benefit that could emanate by engaging in trade liberalisation most importantly multilateral trade agreements. Primarily because membership necessitates opening up their immature economy to stiff foreign competition. Nevertheless, many developing countries have joined the WTO with its perceive benefits of increasing market access and integration into the global market. Theoretically, both the Classical and Neo-classical trade theories signify the benefits of unrestricted trade towards the development of economies.

This research report investigates the rationality or otherwise of Ethiopia's accession into the WTO. Specifically, the research has looked at the possible economic benefits of joining WTO as a result of increased market access and pinpoint the challenges the country could face with regard to current account BOP disequilibrium. The economic rationale of the integration of developing countries has been closely linked to the benefits to be derived from increasing market size. The study employed secondary data to answer the research questions and reach at conclusion. The results indicate that for the country to be benefited from the increased market access, there is a need to diversify the export basis as well as adding value to the existing export commodities. The trend analysis with regard to BOP current account deficit illustrate that the trade deficit is widening in the recent time. Appropriate measures should be in place to reduce the aggravated BOP disequilibrium.

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Acronyms

- **ADLI**: Agricultural Development Led Industrialisation
- **BOP**: Balance-of-payment
- **GATT**: General Agreements on Tariffs and Trade
- **GDP**: Gross Domestic Product
- **GTP**: Growth and Transformation Plan
- **H-O:** Heckscher-Ohlin
- **IMF**: International Monetary Fund
- **LDC**: Least Developing countries
- **LIs**: Late Industrialisers
- **MOFED**: Ministry of Finance and Economic Development
- **SAP**: Structural Adjustment Program
- **SPS**: Sanitary and Phytosanitary
- **UNCTAD**: United Nations Conference on Trade and Development
- **WTO**: World Trade Organization

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CHAPTER ONE

1.0. INTRODUCTION

1.1. Background

International trade is crucial to vibrant and resilient economies. The world economy has become integrated which suggest that it is a great means for countries to promote economic growth and development through trade. The most noticeable effect of growing integration has been seen through increasing flows of goods and services across countries borders (IMF, 2001). Because of this integration world economy boosted which also raised living standards around the world.

International trade policy is at the forefront of the development agenda in today's world fundamentally because of its role in country's economic development. Trade liberalisation, loosely defined as a move towards free international trade through the reduction of tariff and other trade barriers, is largely perceived as the major driving force behind economic development. As a result, most economists believe that international trade is good for growth and development.

Based on the evidence that there are several benefits that a country can gain through more active participation in world trade, lowering trade barriers is considered as one of the most obvious means to encourage trade. Consequently, a number of international organisations such as World Trade Organisation (WTO) were established to ensure trade flows as smoothly, predictably and freely as possible (WTO, 2016). The barriers concerned include customs duties (or tariffs) and measures such as quotas or import bans that restrict quantities selectively.

The WTO is composed of 161 member nations gathered around common goal of promoting free trade. Out of 161 counties 116 are developing countries 38 of them are developed countries and

7 transition economies (WTO, 2015).[1] About 54% of the world trade takes place in the developed world. Two of the world's largest traders the European Union and the United States alone account for 35 percent of the world's exports. In contrast to that, the total exports of all the Least Developed Countries (LDCs) account for only a half percent of the world's trade, reflecting huge social, political, and economic differences between developing and developed nations as well as huge gaps between their resources (Yusuf, 2008).

Among African countries in general and Sub-Saharan countries in particular, Ethiopia is the largest economy which has not yet signed WTO membership. Ethiopia handed in the request for WTO accession on 13 January 2003. The process has taken longer than expected, 13 years down the line membership has not been achieved. At a time when the WTO is believed to be considering the interests of least developed countries more seriously, the lengthy accession process has created uncertainty (World Bank, 2006).

For Ethiopia, the main aim of trade integration to the global economy is to exploit its opportunities to transform the economy from agrarian based economy to a modern manufacturing based economy. Ethiopia, a country with large resource base and potential, better participation in world trade believed to provide additional opportunities to address the challenging issues of economic growth development. Joining the WTO is also taken as an additional step forward fully consistent with the country's slow economic transition process from a centrally planned to a market oriented economy (Asmelash, 2014).

According to Ministry of Trade, Ethiopia is currently in the fourth and final stage of the process, which involves bilateral negotiations with working-party members regarding specific tariff rates

[1] See Appendix

and market access commitments. The prolonged time to negotiate accession has created uncertainty about WTO membership. Delelegn, tries to pinpoint the difficulties facing least-developed countries in WTO accession, including challenges in part because of technical, structural and institutional weaknesses inherent in their economies and in part due to a growing complexity of the trading system and WTO's cumbersome accession requirements (Delelegn, 2005).

Ethiopia is one of the 23 countries, seven of them are least developed, with observer status.[2] Accession to the WTO signals the country's readiness to ensure that its domestic rules, regulations and administrative procedures particularly those pertaining to trade conform to WTO Agreements. Membership is supposed to benefit poor countries economically. However, to succeed in WTO accession, Ethiopia needs to improve its competitiveness at the national and sectoral levels, and of its products (Yusuf, 2008). Hence it is important to understand Ethiopia's economic realities, including its resource endowments, the characteristics of the export sector and the socio-economic environment, in order to assess the impact induced by the WTO membership.

WTO membership does not always deliver attractive opportunity, and could pose significant challenges. Acceding to the WTO entails enormous challenges for developing countries in particular the least-developed countries. The challenges include the effects of opening up the local economy for international competition, as well as fundamental aspects of excessive current account deficit. Sensitive issues such as the flood of dumped products into the domestic market, which could lead to shrinking in export revenues, and the resulting worsening balance-of-payment (BOP) situation of the country, topped the major concerns about the membership.

[2] See appendix for the status of Ethiopia's accession

Therefore, analysis of the implications of Ethiopia's integration into the global trading system is critical to facilitate informed decisions that will help to take full advantage the increased market size while restraining the harmful impacts therein. It is also important for Ethiopia to find the right mix of policies that will enable it to achieve its Growth and Transformation Plan which seeks to transform the economy towards an industrialised economy and the long-term objective of becoming middle-income country status by 2025 within a more open economy.

The present study adds to the existing literature by trying to answer the basic questions of what are the prospects of increasing market access and challenges associated with worsening current account as a result of WTO member. In doing so, this research provides two contributions. The first is it will indicate measures to the increasing market access conditions. Enhanced market access for the poor developing countries such as Ethiopia would provide the means to use trade for development. The second contribution is to measure the challenge of worsening BOP current account deficit and to investigate the difficulties the country could face as result of BOP disequilibrium. The study also explores the potential implications of the decision to join in economic development during the accession process as well as after achieving membership.

1.2. Statement of Problem and Justification

General Agreements on Tariffs and Trade (GATT) was established after World War II to ensure a stable trade and economic world environment. GATT is a multilateral agreement regulating international trade. Its purpose is to substantially decrease tariffs and trade barriers and the removal of preferences, on a reciprocal and mutually advantageous basis. GATT was signed in 1947 and ended in 1993, when it was replaced by the World Trade Organisation in 1995. With the world trade becoming complex, GATT was not able to deal with it which leads to the birth of WTO (WTO, 1999).

According to the WTO, 97% of world trade is carried out among members of WTO. As a developing country, Ethiopia should benefit from the increasing international trade. It is assumed that isolation from the WTO will depress trade and investment sector of the country in the long run. Membership, on the other hand, presents several benefits and challenges. The cost of integrating into the global economy could be high, especially to the poor countries such as Ethiopia as competition at the global scale is vigorous. The most important issue however being how to reap the benefits of WTO membership while at the same time maintains sufficient policy space to address other developmental needs.

It is important to recognise that WTO membership requires institutional reforms that are of a particular kind. The accession process can play a positive role in shaping the political economy of trade reform. It is argued that identifying reform objectives before joining the trading system puts government in a better position to use the process to the advantage of leveraging the process to progress on domestic reform (Simon and Carlos, 2005).

The founding principles of mainstream economics assert that trade liberalisation is unambiguously advantageous for least developing countries since they have abundant resource and labour. Free trade will increase efficiency in production and stimulate growth as well as it will simultaneously increase employment opportunities for their most abundant resource, unskilled labour. This could possibly have another favourable effect of decreasing income inequality as the unskilled are among the lowest paid (Lee, 2005).

From this angle, there should be no doubt that free trade is beneficial in terms of its role in employment, economic growth, and distributional implications. In policy terms, this would mean that trade liberalisation would be a finest policy option to protection. Furthermore, strong

supporters of trade liberalisation have extended this to the suggestion that the earlier and broader trade is liberalised the higher the benefits will be.

Nevertheless, there are important theoretical reservations to this hypothesis. The above assumptions relay on the supposition that there is perfect competition in the market and that there is only one return to scale in production namely constant returns to scale. This is obviously at odds with the real world where, especially the situations in developing countries, market imperfections are common and where many branches of industrial production are characterised by economies of scale. Therefore, in the presence of certain market failures, such as positive production externalities in import-competing sectors, the long-run levels of GDP can be higher with trade restrictions than without (Rodriguez and Rodrik, (1999).

Opponents of free trade have also blame it for the growing wage inequality and unemployment in the developed countries, in addition to a rise in exploitation of workers, the de-industrialisation and marginalisation of developing countries; increasing global inequality and poverty; and degradation of the environment. These ideas have spread despite the fact that the gains of freer trade as a means of improving allocation of resources and consequent benefits in economic growth and productive efficiency, are basic principles of mainstream economics (Lee, 2005).

Despite the critics, membership believed to lead to gradual benefits from joint trade liberalisation. The process of accession might also take longer than predicted in Ethiopia's accession plan. The accession negotiation period can, therefore, be used as a preparation time in order to fulfil and revise the laws and trade practices in alignment with the WTO standards, which will help the country achieve full membership in due time.

There are few previous studies (Cordella and Esemealem, (2005); Tedele, (2005); Yusuf, (2008); Costantinos, (2014); Dorel and Mengesha, (2005)) that provide a thorough investigation of the impact of WTO accession in Ethiopian economy. Therefore, this research seeks to examine the rationality or otherwise of this assertion and add to the existing literature. In doing so, it will contribute to the general debate about the challenges and prospects of accession to the WTO.

1.3. Objectives of the Study

Economists have identified different reasons why countries might be interested in joining international trade agreement. However, the agenda continues to be dominated by the belief that the key to long term growth lies in increasing integration into the global economy. It is recognised that global trade arrangements can contribute to Ethiopian's integration into the global economy as well as it would help facilitate economic growth. Therefore, the underlying objective of the study is to examine the major opportunity and challenge WTO accession would present to Ethiopian economy. More specifically, the research is aimed at:

1. Assessing the possible economic benefits of joining WTO as a result of increased market access.
2. Evaluating the Balance of Payment challenge the country would face by becoming WTO member.

1.4. Research Questions

It is imperative to elucidate the opportunities and challenges that will be faced by Ethiopia in its WTO accession. It is recognised that, robust and sustainable international trade participation will contribute to high and sustainable GDP growth over many years, strengthening the balance of payment, accumulating savings, and attracting foreign investment. Opening up to external economic relations also contributes to job creation, especially in the export-oriented and labour

intensive processing industries. On the other hand, the competitive pressure will increase when protection of domestic production is reduced while the country implements the international commitments. Baring this in mind, the study attempts to examine country's fate by answer the following research questions:

3. Can integration to the global trading system increase market access for Ethiopian exports?
4. Will the country face current account BOP worsening challenge because of the membership?

These questions assume significant dimensions when formulated on the context of Ethiopia. For years, Ethiopia has been negotiating accession to WTO as a part of its integration into the world economy. However, it has not been an easy task for Ethiopia to negotiate accession and reach a decision. The main opportunities for Ethiopia would presumably be an increase in the volume and processing level of its exports, provided that the international quality standards are achieved.

1.5. Hypotheses

Some of the main challenges Ethiopia would face as a result of WTO membership are related with diversifying exports and supply constraints as well as worsening balance of payment deficit. The research would like to test the validity of the following hypotheses. the paper asserts that the processes

1. There are no benefits Ethiopia could gain by joining WTO.
2. There are no BOP current account challenges in becoming a member of WTO.

1.6. Scope of the Study

Undertaking research on challenges and opportunities of WTO accession at global level is a complex task at this level as it requires huge finance, time, and data source. These constraints forced the researcher to commence the research at a country level. However, the results of the study could be used to reflect on other developing countries who are aiming to join WTO.

The study specifically focused on identifying major factors which will increase Ethiopian's market access through WTO membership as well as the factors which may constrain Ethiopia from taking advantage of the membership. Due to time and budget constraint, the scope of the research is limited to identifying the opportunities of increased market access and the challenge of current account BOP disequilibrium in case of Ethiopia.

1.6. Organisation of the Thesis

The remaining part of this thesis is organised as follows. Chapter two deal with review of literature that includes theoretical framework of international trade and trade liberalisation. The third part presents a brief description of Ethiopian economic structure and discuss about the methodology employed on the analysis. Chapter four deals with the results and discussions of research analysis, and finally chapter five presents conclusion and recommendations based on the findings of the research.

CHAPTER TWO

2.0. LITERATURE REVIEW

From periods of colonialism to globalisation, the role of international trade has dominated both political and economic discourse. This section will look at theoretical literatures about the trade liberalisation and WTO accession as well as the theoretical foundation of international trade. The first section of the literature review will provide explanation or reasons why trade takes place between countries and general trade theory concepts. The second part will deal with the rationality of trade liberalisation in developing countries and the issue of using industrial policy to advance development objective against WTO rules and regulations.

2.1. Overview of Trade Theories

Why countries trade with each other is a fundamental question in international trade theory. Absolute and comparative advantage, are two traditional concepts in international trade that tried to show how and why nations devote limited resources to the production of particular goods. The global economy becoming highly complex, Classical, Neo-classical, and New Trade Theory, attempted to provide a more realistic reasoning why trade takes place between countries. The classical, Neo-classical theories and New Trade Theory are individually covered in the following review.

2.1.1. The Theory of Absolute Advantage

Adam Smith, known as the founder of modern economics and free trade, argued that if a country could produce a good cheaper than the other country, and if the second country could produce a different good more cheaply than the first, it would be equally advantages for both countries if they specialised in the good they could produce cheapest, and traded (Shone, 1972).

Adam Smith held that for two nations to trade with each other voluntarily, both nations must gain. Jointly beneficial trade takes place, according to Smith, based on absolute advantage. When one nation is more efficient than the other nation is producing a second commodity, then both nations benefit by each specialising in the production of the goods of its absolute advantage and exchanging part of its output with the other nation for the commodity of its absolute disadvantage (Zhange, 2008).

Smith's publication of An Inquiry into the Nature and Causes of the Wealth of Nations (1776), describes trade as a consequence of the human propensity to truck, barter, and exchange one item for another. This means that whenever people trade with each other they pursue their own interests, not some selfless ones. The parties involved must benefit from trade otherwise, they would not practise it. Thus, merchants carry on commerce internationally because they earn profits by doing it. Smith tried to show that not only single merchants but the society as a whole benefit from international trade (Schumacher, 2012).

A country is assumed to have absolute advantage in the production of a good in contrast to another country if it can produce the good at lower cost or with higher productivity. Consequently, according to Smith, it is better to import goods from abroad where they can be produced more efficiently because this permits the importing country to focus production on the goods it can itself produce efficiently. Thus, the primary reason for international trade flows is the difference in production factor endowment between exporter and importer (Marrewijk, 2009).

Countries should export those goods which they can produce efficiently, and import those which they are less efficient. If countries trade according to this principle, all will gain from trade or in

other words trade will be mutually beneficial. The reason behind absolute advantage is that each country produces more of the product per unit of resources than the rest of the world. In such circumstance, each country should specialise in producing what it produces with least cost, that it has an absolute advantage and trade with each other. However, if a country has an absolute advantage in the production of both or all goods, Smith would say that country cannot gain from trade. This is often mentioned as the major drawback of the principle of absolute advantage. It is frequently argued that developing countries may lack the capabilities to gain an absolute advantage in the production of any good, such that they cannot possibly participate on the global market and benefit from international trade.

2.1.2. The Theory of Comparative Advantage

The Ricardian reason that explains the origins of trade differs categorically from the Smithean argument outlined above. David Ricardo (1772-1823), On the Principles of Political Economy and Taxation (1817) took Smith's work farther: even in situations where a country has an absolute advantage in the production of both goods, trade can be mutually beneficial (Ricardo, [1817] 2004). Comparative advantage describes how trade can generate value for both parties even when one can produce all goods with fewer resources than the other. Ricardo stressed that trade can improve the welfare of two countries even if they do not have an absolute advantage over one item if they specialise in goods that they have a comparative advantage. This refers to the country's ability to produce a particular good or service at a lower marginal cost or opportunity cost than another country.

According to Ricardo, international trade should be free, with each country specialising in the commodities with the least relative costs of production, hence its comparative advantage (Ricardo, [1817] 2004). The doctrine states that each nation can find a set of commodities in the

production of which it can successfully compete in world markets, regardless of resource-base or the degree of efficiency of its technology. Essentially it rests on the notion that each nation has resources which are immobile from country to country, so that they avoid direct competition from other nations' factors.

Ricardo assumed two countries, England and Portugal, producing two goods, cloth and wine, using labour as the sole input in production. He supposed that the productivity of labour (i.e., the quantity of output produced per worker) varied among industries and across countries. Nevertheless, instead of assuming, as Adam Smith did, that Portugal is more productive in producing one good and England is more productive in the other, he assumed that Portugal was more productive in both goods. According to Smith's perception, then, it would seem that trade could not be advantageous, at least for England (Ricardo, [1817] 2004).

Ricardo demonstrated numerically that if England specialised in producing one of the two goods and if Portugal makes the other, then total world output of both goods could rise. If appropriate terms of trade were then chosen, both countries could have more of both goods after specialisation and free trade than they each had before free trade. This implies that England may nevertheless gain from free trade although it is not technologically sophisticated to Portugal in the production of everything.

This principle articulates the ways in which a nation that opens to international trade is led to specialise in and export certain commodities and to import others. The notion of comparative advantage is crucial for understanding the structure of world trade (Maneschi, 2009). The major setback of this theory is that it assumes comparative advantage as given. For example, according to this theory, African countries should focus in the production of primary commodities and stay

that way. This would be against the ambition of many developing countries to use trade as an instrument for industrialisation.

2.1.3. The Heckscher-Ohlin Model

Comparative advantage theory fails to examine why productivity difference between countries exists. The Heckscher-Ohlin model is a departure from the theory of comparative advantage. Based on the works of the Swedish economists Heckscher (1919) and his student Ohlin (1933), the neoclassical trade theory emerged by focusing on factor endowments variability as the source of trade. The Neoclassical model extended the Ricardian theory to two factors (labour and capital), two goods and two countries (Panagariya, 2009).

H-O integrated the concept of factor abundance with the fact that different goods and services utilise different levels of factor intensities. The model emphasises how countries with comparative advantages must sell abroad goods that require factors of production that they have in abundance, while importing goods that it cannot produce as efficiently. Simply stated, the model shows that a country has a comparative advantage in the good that employs its abundant factor intensely (Langdana and Murphy, 2014).

This neoclassical trade theory provides tools of analysis and studies the impact of international trade in a more rigorous and less restrictive manner. The H-O theory demonstrates that international trade in commodities could alleviate the difference between countries in relative factor endowments. This takes places indirectly when countries export those commodities that use intensively the factors in relative abundance. H-O asserts that differences in comparative advantage come from differences in factor abundance and in the factor intensity of goods (Morrow, 2010).

The H-O theory emphasises the differences in relative factor endowments and differences among goods in the intensities with which they use these factors as the fundamental cause of international trade (Richard, Chen, and Ehsan, 2002). Countries would specialise in industries most able to utilise their combination of resources efficiently. Importing commodities that would use domestic scarce factors if they were produced at home can get rid of the relative scarcity of these factors. Therefore, free trade in commodities could help to equalise factor prices between countries with the similar technology, even though the production inputs do not have an international market. H-O theory has highlighted the possibility that countries may differ from each other in the composition of their productive resources as well as in the overall productivity (Zhang, 2008).

In general, on the basis of these assumptions the H-O model predicts that the capital surplus country will specialise in the production and exports of capital-intensive goods whilst the labour rich country in the production and export of labour-intensive goods. When factor abundance is defined using price criteria a country in which one of the factors of production is relatively cheaper is defined as having that factor of production in abundance. The H-O model ignores differences in total factor productivity across industries and presumes that all countries possess the same production function in a given industry. If in a particular country capital is relatively cheaper, regardless of the physical quantity of capital available, it will be regarded as capital rich country.

2.1.4. New Trade Theory

According to the traditional trade theories (Comparative advantage and H-O models), trade takes place due to existing comparative advantage among countries (technology, factor endowment difference). However, significant amount of trade occurs between similar countries, countries

with similar technology and similar factor endowments. With small difference to make use of, these countries should have little to gain from free trade, yet seem to have prospered from trading with each other. Given this perplexing portion of trade, trade theorists began to look for another reasons for trade, reasons where trade could occur between similar countries and surrender sizable benefits from trade.

The new trade theory recognised that countries producing similar goods and services maintain to engage in trade with one another, despite the fact that they don't have anything to gain according to standard theories of international trade. This theory wanted to explain why such transactions happen between countries with similar economic setting. Ultimately, new trade theory concluded that absolute and comparative advantage does not just appear from natural dissimilarities in resources or climate; rather, economies of scale and network effects that occur in key industries are also important determinants of international trade patterns (Krugman, 2008).

New Trade Theory is the descriptive term for theories that assume imperfect competition and increasing returns to scale in order to explain international trade. In contrast, old trade theories, such as the Ricardian or the Heckscher-Ohlin model, assume constant returns to scale and perfect competition, and attribute the emergence of international trade to cross-country opportunity cost differences (i.e., comparative cost advantage) caused by either differences in production technology or factor endowments (Matschke, 2009).

New trade theory also helps to explain globalisation and the costs of economies of scale for developing nations. Early entrants into a given industry have a natural advantage as they have first mover advantage and more time to attain economies of scale, making it tricky for new entrants to compete. Thus, emerging industries in developing countries may have a difficult time

ever becoming established in the existing global market, as the developed world has already created economies of scale and often dominate the market.

This theory suggests that governments might have a great responsibility in promoting new industries. New trade theory recognised that because comparative advantage could be attributed not only to naturally occurring factors, but also market and government created factors as well, it is often in the interests of countries to protect infant industries. Domestic subsidisation or tariff reduction would allow industries in developing countries to ultimately exploit economies of scale and be competitive in the global market.

2.2. Rational for Trade Liberalisation and Industrialisation

The momentum for international liberalisation draws its rationale from the standard economic theory, which claims that free trade is greater to all other trade theories. As an extension of this basic principle, free trade among countries will advance the welfare of the member countries so long as the agreement leads to a net trade creation in a general sense (Geda and Kibret, 2002).

The assumption behind trade liberalisation is that trade can help advance development agenda and decrease poverty by means of generating growth through increased investment and commercial opportunities, in addition to widening the productive base through private sector development. As such, trade liberalisation has been seen as an important step in achieving economic development. International trade permits countries to specialise in producing commodities where they have a comparative advantage and this is assumed to enable a net gain in economic welfare.

For many developing countries trade liberalisation was introduced in the early 1980s, when they encountered serious economic problems following the debt crisis, the advice for trade liberalisation instead become a precondition (Chang, 2006). This was done through the Structural Adjustment Programmes (SAPs) with conditions attached to loans and aid, as well as prerequisite for membership in international trade agreements (Peet, 2003). Since then, developing countries has been making significant progress toward opening up their economy and has notably improved their trade policy regime. More specifically, the implemented trade reform resulted in a major slash in import tariff rates, a cut of the tariff dispersion and diminishes in the level of applied rates.

Nevertheless, trade liberalisation may be damaging for developing economies that came late to the playing field and cannot compete against free trade (Chang, 2007). Because free markets simply meant deadly competition from well-developed foreign firms, before local enterprises had enough experience to compete at international prices. The infant industry argument advocate that trade protection is necessary to help developing economies to diversify and develop new industries. In history, most economies had a period of trade protectionism. It seems unfair to insist that developing countries cannot apply some tariff protectionism. As result of this argument, it is possible to say that trade liberalisation mostly benefits developed economies more than developing nations.

Chang in his "Bad Samaritans the Myth of Free Trade and the Secret History of Capitalism" book, argued that, contrary to the mainstream economics take on history with its emphasis on free trade and comparative advantage, protectionism, especially of infant industries, rather than free trade, has been the main strategy for successful industrial development (Chang, 2007).

It might be true that, by liberalising trade and capitalising on areas of comparative advantage, countries may gain economic benefit. But, at market prices, many poor countries had no comparative advantage at all (Serra, and Stiglitz, 2008). Because these countries enter the market without enough experience to produce efficiently, to expand production at low cost, and to invent new products, the law of comparative advantage was violated. And also, the late industrialisers (LIs) faced tough entry barriers into world markets.

The economic circumstances in today's world are different. Particularly, today's developing economies are behind the game and, as LIs, face very different external and internal conditions from those Adam Smith and Divide Ricardo referenced. LIs have tough competition from the first industrialisers that control the technology frontier. Capital is also being more mobile than in the time of Adam Smith, and trade is not just in final goods (Seguino, 2014).

WTO was established in 1995 with overriding purpose removing trade obstacles to help trade flow as freely as possible so long as there are no undesirable side effects. The WTO is the only international body that deals with the global rules of trade among countries by assisting trade flow as freely, smoothly, and predictably as possible. The prime objective is to provide a level playing field for member countries by encouraging non-discriminatory treatment in international trade regardless of their stages of development and the decrease and possible removal of trade barriers (Yusuf, 2008).

2.3. Industrial Policy and the WTO

Industrial policy has generated considerable controversy and is vaguely defined, being frequently endowed with different meanings depending on context and the person who defines it. The World Bank has provided a working definition of industrial policy as "government efforts to

alter industrial structure to promote productivity-based growth" (World Bank, 1992, pp. 293). UNCTAD conversely defines industrial policy as a concerted, focused, conscious effort on the part of government to promote and encourage a specific industry or sector with an array of policy tools (UNCTAD, 1998). According to Pack and Saggi industrial policy is defined as "any type of selective intervention or government policy that aimed at altering the structure of production toward sectors that are expected to offer better prospects for growth than would occur in the absence of intervention, i.e., in the market equilibrium" (Pack, and Saggi, 2006, pp.2). Rodrik on the other hand, associated industrial policy with any form of selective intervention not just that favouring manufacturing which broaden the concept further (Rodrik, 2007).

The current WTO rules were written in the late 1980s and early 1990s when government interventionism was disregarded and discarded. Consequently, industrial policy is largely considered as illegal or at least undesirable in the WTO. The existing WTO rules which were established in the Uruguay Round when the global policy-making community was dominated by the orthodox neoliberal economics. The general aim of these rules was to restrict the use of industrial policy instruments.

Opponents of industrial policy argue that it has rarely worked, as it can be captured by vested interests, or because it is not simply possible for civil servants to 'pick winners'. In spite of the well-built theoretical case against activist industrial policy, it is still commonly followed in a number of countries (Lall, 1994; Singh, 1996; Asian Development Bank, 1999). It is used by both developing and developed countries with multiple objectives including, employment, structural change, increased output, and enhancing technological capacity and better distribution. Emerging countries are determined to ensure that their industries are competitive by means of industrial policy to promote particular sectors (UNTACD, 2000).

Industrial policy as a policy instruments remains controversial in terms of its rationality. There have been countless successes, but also many failures. Nonetheless, although not all countries pursuing industry policy are successful, almost all prosperous countries have carried out some forms of industrial policy in their journey to industrialization. Chang argue that it is extremely difficult for industrially backward countries to develop without trade protection and subsidies (Chang, 2006).

Industrial policy covers a wide range of instruments, such as export promotion, import protection, performance requirements for FDI, investment incentives and subsidies, the current WTO rules have restricted their applicability to a large extent. Other old-fashioned industrial policy tools like high tariffs, quantitative restrictions, export subsidy, are basically prohibited by WTO. As a result, Xinquan and Guijun debate that the currently used industrial policy tools are largely less trade distorting domestic policy rather than trade policy (Xinquan, and Guijun, 2011).

The main purpose of using industrial policy tools such as tariff protection in developing countries is the promotion of infant industries. Developing nation governments need to support their infant industries until they get through a period of "learning" and be able to compete with the producers from the more advanced countries. Kemp (1964) noted learning processes such as employee learning by doing as the source of cost saving and important between learning processes that are external to the firm and internal to the firm. New Trade Theory supports similar claim, suggesting that comparative advantages are generated from scale of economics and from the first mover advantage in production. Clearly showing for developing countries to reach to the level of economics scale where the developed countries are today, it is imperative to support their infant industries.

Instruments such as tariffs or output-based subsidies or export subsidies to industries has been the focus as a way of remedying alleged market failures due to externalities, missing markets or other failures (Lall, 1994). Traditionally, trade tariffs were seen as an advantage by states as they were an important source of state revenue and a way of protecting domestic producers from foreign competition. The types of instruments employed by developing economies have changed, as of 1980 owing to increased restrictions on their use through regional and multilateral agreements, in addition to domestic regulatory alterations began through structural adjustment program or domestic efforts to restructure their economies.

2.4. Why WTO Accession?

Analyst from countries seeking to join the WTO gives a variety of economic and political reasons for joining the WTO. For some, the underlying principle is to increase integrating their economy into the world economy. The other common benefit of WTO membership is predictability of foreign markets, which will result in higher exports. Another economic rationale is to attract more FDI and, in general, to use WTO accession as a seal of approval recognised by the international business community. Countries also join WTO to gain market access which will allow entering new market and export diversification. It is also possible; however, that many countries join the WTO for political motives. Transition economies, for example, often see WTO accession as a way to indicate their commitment to joining the international community of market-based economies. Briefly, many see WTO membership as facilitating both political and economic reform processes within their countries (Simon and Carlos, 2005).

However, there is believed to be some overlap among these stated rationales and the possible benefits of WTO accession recognised in economic research, mainly in relation to boosting exports and foreign direct investment inflows. Economists also indicate the benefits that flow

from better foreign access to the acceding country's markets, particularly in terms of cheaper prices for and a better variety of imports. By setting national tariffs, committing to remove quotas on imports, and restructuring other state measures, the credibility of an acceding nation's policies can be improved and the private sector faces little uncertainty. In principle, then, WTO membership can advance main components of the domestic business environment which, in turn, has sizeable national payoffs (Simon and Carlos, 2005).

CHAPTER THREE

3.0. DESCRIPTION OF ETHIOPIAN ECONOMY AND RESEARCH APPROACH

The purpose of this section is to explain the methodology employed in the study as well as to describe the present Ethiopia's economic performance and the expected future prospects. The first section gives a brief description of Ethiopian economy and the second section explain the methodology used in this study.

3.1. Overview of Ethiopian Economic Performance

The structure of Ethiopian economy is founded on agriculture. The agricultural sector is often described as a backbone of the economy because of its overwhelmingly important role. Agricultural sector generates about 43 percent of the GDP, 80 percent of workforce employment and 85 percent of goods exports, and the sector is the mainstay of the economy (IMF, 2015). The other sectors namely service and industry contribute 45 percent and 12 percent of the GDP respectively. The growth performance of the agricultural sector determines the growth of all other sectors and consequently, the whole national economy.

Looking into the main agricultural products produced by smallholder farmers and its contribution to the agricultural GDP, crop production alone contributes 60 percent of the sector's outputs, whereas livestock accounts for 27 percent and other areas make up 13 percent of the total agricultural value added. Production in the agricultural sector is dominated by small-scale farmers who practice rain-fed mixed farming by employing traditional technology, adopting a

low input and low output production system. Consequently, the sector suffers from poor cultivation practices and frequent drought (AEO, 2014). [3]

According to international financial institution official reports, Ethiopian economy has shown an annual growth of 8.6, 10.6, and 10.3 percent in 2012, 2013, and 2014 respectively. This continuous and a-two-digit high growth would position Ethiopia along with the fast-growing countries in the world.

As it can be seen from table 1, while GDP growth remain high, per capita income is the lowest in the world. The growth trajectory is forecasted to continue at a moderate rate of 4.5% in 2016 despite the ongoing drought which resulted in widespread food shortages and is likely to have devastated agricultural output.

Table 1 Selected Macroeconomic Indicators

Indicators	**Units**	**2011**	**2012**	**2013**	**2014**
GDP at market Price	Million US $	31,952	43,310	47,648	55,612
GDP Growth	%	11.2	8.6	10.6	10.3
GDP per Capital	US$	355.6	469.8	503.9	573.6
Inflation (CPI)	%	33.2	22.8	8.1	7.4
Foreign Direct Investment (net inflow)	Million US $	626.5	278.5	953	1200

Source: World Development Indictor

According to the World Bank, (2015), Ethiopia has achieved high economic growth mainly through public investment (infrastructure expansion) on the demand side and by services and agriculture on the supply side. Ethiopia's economy continues on its state-led Growth and Transformation Plan and published another development plan in 2015.

[3] The Ethiopian Fiscal Year ranges over 12 months from July 8 to July 7.

3.2. Recent economic developments and prospects

Ethiopia's economy has grown by an unprecedented 10.8 percent on average in the past decade (World Bank, 2014). The economy has experienced impressive growth performance and much faster than the average annual growth rate in Sub-Saharan Africa as a whole, nearly 6 percent. As a result, IMF ranks the country among the five fastest growing economies in the world (ADB, 2015). The structure of the economy is evolving; the service sector has slowly overtaking the lead from agriculture in terms of its contribution to the gross national product.

Table 2 below demonstrates the evolution in the structure of Ethiopian economy. The share of the service sector to GDP increased from 37% to 44% in the past 5 years while the share of agricultural declined from 52% to 45% in the same period. However, agriculture will continue to be the main source of employment as the other subsectors have not been able to generate much employment to pull labour out of agriculture into more productive industrial jobs. According to the World Bank report, the share of employment in the manufacturing sector has changed only slightly since 1999 at below 5 percent of total employment (World Bank, 2014).

Knowing governments interest to accelerate structural transformation in industrial sector through expansion of industrial park to attract FDI and support small and medium manufacturing firm to increase job creation and value addition, there is a positive prospect in future for enhanced growth in the manufacturing sector. Despite this effort to increase the share of manufacturing sector to the economy the share has shown a declining trend, as table 2 below shows, from 4.1% in 2008 to 3.9 in 2013.

Table 2 also shows the decline in the share of agriculture to the GDP. Despite the steady decline in its share to the economy, growth in agricultural sector holds huge potential. Grain production

showed robust growth and hit a record level of 25.1 million tons in 2013. This is mainly due to favourable weather conditions, better access to extension services for farmers, and expansion in cultivated land. Yield productivity per hectare has increased from 1.6 tons in 2011 to 1.8 tons in 2013. In spite of these developments, productivity is still considered to be low (AEO, 2014).

Table 2: Contribution of Economic Sectors in Ethiopian Economy

Sectors	2008	2013
Agriculture, hunting, forestry, fishing	52.0	45.8
Mining	0.4	1.3
Manufacturing	4.1	3.9
Electricity, gas and water	1.5	1.0
Construction	5.3	5.0
Wholesale and retail trade, hotels and restaurants	13.5	18.8
of which hotels and restaurants	2.9	2.9
Transport, storage and communication	4.1	5.3
Finance, real estate and business services	9.7	9.8
Public administration, education, health and social work, community, social and personal services	3.7	3.4
Other services	5.5	5.7
Gross domestic product at basic prices / factor cost	**100**	**100**

Source: Adopted from African Economic Outlook 2014

The Ethiopian economy is highly vulnerable to exogenous shocks by its very nature of its dependence on primary commodities and rain-fed agriculture (ADB, 2011). This remains one of the critical challenges for Ethiopia's economy which resulted in a major deterioration in terms of trade as a result of drought and commodity price shocks. To mitigate this risk, the government is pursuing policies and strategies for the economic diversification and expanding the use of irrigation to enhance resilience in the agriculture sector and growing the industry sector.

With the objective of reducing reliance on agricultural sector, the government is pushing to diversify into manufacturing, textiles, and energy generation. Subsequently, Ethiopia has able to attract significant foreign investment in leather, commercial agriculture, textiles and manufacturing. Remittances and FDI have witnessed strong growth. Within a period of four years, FDI doubled to reach US$ 1.2billion in 2014.[4]

3.3. Growth and Transformation Plan (GTP)

GTP is a succession of the Plan for Accelerated and Sustainable Development to End Poverty (PASDEP) development plan. The GTP has two phases: the first phase ranges from (2010-2015) and the second phase which also has five years' span (2015-2020) and was issued by The Ministry of Finance and Economic Development. This plan has an ambitious objective of maintain 11.2 % GDP growth per year and attaining MDGs. The plan includes details of the cost and specific targets the government expects to hit by pursuing different development objectives. The country's vision, the achievements of PASDEP, and the lessons drawn from its implementation, were the basis for formulation of GTP I.

With the aim of sustaining the rapid, broad based and equitable economic growth and development witnessed during the last decade GTP II was issued in 2015. The overarching objective of GTP II is the realisation of Ethiopia's vision of becoming a lower middle income country by 2025. Thus, GTP II aims to achieve an annual GDP growth rate of 11 percent within more stable macroeconomic environment while at the same time following aggressive measures towards fast industrialisation and structural alteration. Bring about structural economic transformation by refining the nation engineering and fabrication capacity through enhanced productivity, quality and competitiveness of the productive sectors.

[4]Data Source: World Bank, World Development indicators

3.4. The Structure of Ethiopia's Exports

The agricultural sector is a key economic sector in many sub-Saharan countries; Ethiopian economy is not any different. Although agricultural production in Ethiopia is essentially subsistence its role in the economy is enormous. In recognition of this role the agricultural sector has in the economy, government has adopted an economic policy that put emphasis on the agricultural sector including Agricultural Development Led Industrialisation (ADLI) and Growth and Transformation Plan (GTP).

Regardless of the fact that Ethiopia 's exports has grown in recent years; trade volumes are still low relative to the size of the economy. Export continued to be dominated by agricultural commodities pointing to the need for industrialisation, value addition, and diversification. Export diversification is still low and the earnings from the sector have not been growing as planned as it vulnerable to price fluctuations. Exports remain heavily concentrated on primarily commodities and coffee (the principal export products), oilseeds, khat, leather and leather products, pulses, cut flower, fruits and vegetables and live animals.

In spite of the continued effort to diversify export basis, the share of non-agricultural exports are still very low which underline the vulnerability of Ethiopia's export to weather condition, declining terms of trade and international price shocks. The overall performance of the export sector has been dim due to structural problems. The price of most of the country's export commodities, including coffee, has declined, and the gain in the export of leather and leather products and pulses was not high enough to compensate for the decline.

Export-led growth theory suggests that export-oriented policies enhance economic growth. Advocates of this theory argued that export has a strong correlation with economic growth and

can play crucial roles to improve the overall economic performance of a country. Exports help to generate foreign exchange and ease constraints in addition to providing greater access to international market. The earnings from exports permit the import of intermediate inputs, mostly capital goods, for domestic production and exports, thus growing the economy's production possibilities (McKinnon, 1964).

Export may benefit economic growth through creating positive externalities to non-exports sub-sector, increased scale economies, improved allocative efficiency and better capacity to create comparative advantage (Feder, 1982). Under GTP, the government is embarking on a major export drive complemented with an import substitution strategy. Ethiopia has been reasonably successful in picking winners such as the case of the flower industry where FDI has been increased considerably. However, it is believed that there is a need to open up the trade system further, and strengthen efforts to advance competitiveness.

3.5. Research Methodology

This paper aims to establish the possible benefits and difficulties of WTO accession. There are few studies that aimed at evaluating the likely impact of WTO accession on the Ethiopian economy (Cordella and Esemealem, 2005; Tedele, 2005; Yusuf, 2008;Costantinos, 2014; Dorel and Mengesha, 2005). However, none of them have addressed the challenge and prospect the WTO accessions may hold in terms of market access, and balance of payment disequilibrium. Therefore, it is important to ask and investigate the challenges the country would face by becoming a member as well as the new opportunities, such as increasing export or market access, which will bring about. In order to evaluate the effect of WTO accession in Ethiopian economy, the researcher would like to assess the following areas. 1) Market access and 2) Balance of Payment disequilibrium.

1. Market Access

The most visible effect of the WTO on trade policy-making concerns is it effect on the movement of exports and imports. These policy instruments are usually visible because they affect market access of acceding countries for their exports as well as the access of foreign companies to the markets of acceding countries. Market access allows a higher level of export growth and therefore income growth. Besides, certain commodities that generate income for the poor will provide an additional impetus to poverty reduction, in addition to the impetus from a rise in income all around.

According to WTO market access for goods means the conditions, tariff and non-tariff measures, are removed and agreed by members for the entry of specific goods into their markets. Market access for Ethiopia will be assessed by sectors producing major exportable items mainly agriculture. Because of the great importance of agriculture to the overall export sector, the significant impact of the accession will be felt, among other sectors, by increasing agricultural export. Agricultural commodities dominate the country's export baskets. The major manufacturing export commodities are frozen meat, sugar, leather and leather products, and textiles. Market access will be analysed by using data regarding current agricultural export output and the potential of the sector to expand and was obtained from World Bank, World Integrated Trade Solution, and International Trade Centre.

2. Balance of Payment Disequilibrium

Trade policy is at the heart of domestic macroeconomic and structural policies. WTO membership will also affect countries' internal policies, institutions, and policy instruments. Amongst these effects, the effect of the WTO disciplines on macroeconomic policy in the

existence of balance-of-payment imbalance is vital. The analysis of macroeconomic imbalance mainly from the balance of payment perspective was done by looking into the historical trend in Ethiopia's current account. The analysis here mainly focused on fifteen years' trend in imports, exports and trade balance. The data was obtained from International Trade Centre.

3.5.1. Data Type and Sources

In order to address the objectives of this study, the research used secondary data. A type of data collected was quantitative data. The main data sources for this research were government ministries such as Ethiopian Trade and Industry Minister and Ethiopian Statistics Authority, MOFED and the National Bank of Ethiopia locally and World Bank (World Integrated Trade), African Development Bank and International Trade Centre internationally.

The other secondary data were obtained from sources include books, journals, research institutions, and websites. The secondary data analyses used to provide quantitative evidence of the prospects and challenges that WTO membership will bring to the country. This involved review of extant evidence-based literature related to WTO accession in the case of developing countries.

3.5.2. Data Analysis and Presentation

The research methodology employed in this study is a descriptive statistic to analyse export concentration both in product and destination. Descriptive statistics were also used to examine the relationship between exports, imports and trade deficit with reference to the balance of payment disequilibrium. In order to draw a meaningful conclusion and interpret the data tables, graphs and percentages were used.

CHAPTER FOUR

4.0. RESULTS AND DISCUSSION

The aim of this section is to present the main findings and analysis of the study. The first sub-section of the discussion embarks on describing Ethiopia's structure of foreign trade and then expand on the opportunists that WTO membership will present for Ethiopia in terms of the growing market access for the current export commodities. The second sub-section present the challenges the county could face as a result of a continuous balance of payment deficit due to the trade deficit in the current account which led to depleting foreign exchange reserve.

4.1. Market Access

It is believed that better and predictable market access is one of the presumed benefits of membership in the multilateral trading system. Increasing market access is the most visible and highly anticipated benefit of WTO accession. Greater market access for developing countries is considered as a means to accelerate economic growth and eventually alleviate poverty. Ethiopia has faced with various developmental challenges among which its overwhelming dependence on agriculture for employment and export earnings is considered as the main reason for having a vulnerable economy. The countries accession to the trading system is expected to help the shift in structure which will reduce its dependence on agriculture and diversify the economic activities and achieve the countries ambitious goal of becoming a middle-income country in 2025. WTO accession is thought to be a means to increase the current agricultural dominated export and make use the created market to diversify the economy further into industry.

Even though WTO membership is one way of integrating Ethiopia's economy into the world community, entry into the WTO involves both positive and negative economic consequences. The following analysis is geared towards analysing the opportunities presented by WTO accession and indicating directions where the country has the potential to make use of the increased market access. The most fundamental positive effects of entry to the WTO for the Ethiopian economy are presented in the subsequent discussion.

In order to analyse the influence of WTO membership on increasing market access, one should take into consideration the peculiarities of Ethiopia's foreign trade structure.

Structure of Ethiopia's Foreign Trade

Table 3: Main Merchandise Trading Partner as of 2014

Main Trading Partners (Export)	**Percentage**	**Main Trading Partners (Import)**	**Percentage**
Kuwait	14.13	China	26.5
Somalia	12.48	European Union	10.5
Netherlands	9.29	Kuwait	8.21
Saudi Arabia	10.1	Saudi Arabia	7.36
China	9.41	India	5.5
Switzerland	2.80	United States	3.5
Japan	2.55	Japan	3.44
Germany	5.65	Indonesia	2.10
United States	3.27	Turkey	2.07
Djibouti	3.05	Unspecified origins	17.94
Other (134) Partners	27.28	Other (158) Partners	20.62

Source: World Bank, World Integrated Trade Solution, Compiled by author

As it can be seen from table 3, the bulk of Ethiopia's foreign trade concentrates among few countries. Clearly, the accession will help to expand this market concentration as it will give rise to full additional 161 world countries market which covers 97% of world trade and simultaneous improvement of trade conditions with all member countries. Hence, after Ethiopia join the WTO and consequently after liberalisation of the domestic market and concurrent simplification of access to the markets of WTO member states markets, the value of Ethiopian export products could also gain substantial benefits.

Evidences regarding increasing market access and increasing export indicate that some countries have shown a dramatic increase in their export performance after joining the trading block. For instance, Tonga, an island country in the southern Pacific Ocean, has witnessed 13% export growth for subsequent 5 years since 2007 WTO accession compared with -10 percent over the previous five years (WTO, 2015). This of course, will depend on the ability and readiness of the local economy to absorb the added opportunities.

Looking at the main exportable items, like many low-income Sub-Saharan economies, the structure of Ethiopian export is dominated by few agricultural commodities, whose prices are volatile and renders the local economy vulnerable. The sector is highly susceptible to external shocks, because of its character and high dependence on vagaries of nature, low price and low-income elasticity of demand, and low supply response. Nonetheless, the agricultural sector has a potential to be major source of economic growth and thus be able to contribute to the structural transformation mainly because of its unique forward and backward linkages.

High dependence on primary products for exports has many drawbacks for the country. First, agricultural exports are characterised by declining terms of trade which constrained export

revenue to grow well enough regardless of an increase in volume. Secondly, primary product exports have a little multiplier effect on the rest of the economy as the products are exported raw. In addition to this, there is high market concentration in the export destination which resulted in tough competition. Because of the above mentioned factors, the country's ambition to maximise export revenue through WTO accession could be inhibited.

Ethiopian export commodities not only have fewer destinations, but also it is characterised by fewer products. The major agricultural export crop is coffee, providing about 23% of Ethiopian foreign exchange earnings between 2013 and 2015. Other commodities include vegetable and fruits, oil seed, flowers, live animals, leather and leather products, gold, and pulses. The table below demonstrate the value of export in the past ten years.

As the Table 4 illustrate the country's export commodity shown little improvement in its processing and sophistication. The dominance of agricultural product is clearly shown in the export trend in the past ten years. On the other hand, the export value has grown five-fold in the past ten years from a little over one billion dollars in 2006 to over five billion dollars in 2015. This was party driven by the global commodity price boom and partly the private and public sectors effort to increase export volume.

Table 4: Value of Major Export Items

Data source: International Trade Centre

Export Items (Value in Millions of USD)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Coffee, tea, mate and spices	435.73	430.87	574.40	382.90	727.56	887.11	923.21	802.79	1 063.44	1 049.20
Edible vegetables and certain roots and tubers	56.4	106.96	223.75	294.03	408.82	416.67	488.47	867.62	977.11	897.45
Live trees, plants, bulbs, roots, cut flowers etc,	36.91	88.60	124.17	150.59	165.11	191.35	188.53	589.80	679.69	737.49
Mineral fuels, oils, distillation products, etc	-	0.08	0.08	0.01	0.11	-	0.09	260.51	1 078.39	693.2
Oil seed, oleagic fruits, grain, seed, fruit, etc	173.25	161.13	258.64	383.86	345.37	368.74	494.95	565.77	773.03	531.37
Live animals	33.31	40.60	46.43	62.03	132.42	190.36	181.93	340.86	332.25	332.2
Pearls, precious stones, metals, coins, etc	64.52	60	80	93	183.94	132.51	184.81	169.20	176.76	175.01
Meat and edible meat offal	17.40	13.70	28.20	26.05	49.,55	77.21	73.77	73.96	87.66	106.86
Raw hides and skins (other than furskins) and leather	77.69	93.39	90.96	42.77	67.20	122.71	85.61	103.42	97.46	98.10
Articles of apparel, accessories, knit or crochet	1.28	0.99	3.34	1.79	7.68	18.89	18.35	28.54	37.99	44
Footwear, gaiters and the like, parts thereof	3.16	8.20	9.67	6.61	7.96	8.64	14.40	28.34	33.89	37.69
Aircraft, spacecraft, and parts thereof	-	4.48	1.26	2.29	1.95	2.94	5.50	17.37	11.86	32.79
Others	143.34	268.14	160.72	172.25	232.13	197.77	231.73	228.78	317.37	292.23
Total	**1 042.96**	**1 277.15**	**1 601.84**	**1 618.17**	**2 329.79**	**2 614.89**	**2 891.35**	**4 076.94**	**5 666.89**	**5 027.55**

Certainly, there is now a general consensus that Ethiopia's exports are regarded as by high commodity and geographic concentration, as it can be seen from table 3 and table 4 above. In the past decade, the export structure has experienced slight improvements in terms of products and destination diversification as well as in terms of value addition.

The distribution of non-traditional export to the total export value is insignificant. Agricultural exports which are characterised by decreasing terms of trade could pose a challenge to increase the value of the country's export. As Lall explained, the dynamic growth of exports depends on diversified manufacturing goods (Lall, 2000). In its export strategy, Ethiopia needs to promote value addition to its existing export products as well as new manufactured products. The country should also focus on crafting strategy to create a new comparative advantage. In this regard, the country's success in floriculture industry could be taken as an illustration.

There is a general consensus that the country's ability to make use of increased market access is highly determined by what it produces and sale in the global market. The composition of export is cardinal to industrialisation and economic transformation and can also determine future growth trajectory. Ethiopia's export basket is dominated by raw products while there are few semi-processed agricultural products. The major semi-processed export commodities constitute leather and leather products, meat and sugar.

As table 5 shows, the country's agricultural productivity is still the lowest in the world and could expand considerably. A study conducted by International Trade Centre signifies the same fact. The country's earning from the existing export commodities within the existing partners is considerably undersized. This is partly due to supply side constraints such as poor infrastructure, limited production capacity, lack of appropriate agricultural technology and input and

institutional challenge as well as partly due to external barriers especially Sanitary and Phytosanitary (SPS) measures. In the meantime, if backed by good governance, the accession can attract foreign direct investment, which can help diversify the production base and contribute in curbing such constraints that hinder the sector's potential from being realised.

Table 5: Top Fifteen Products Listed in Decreasing Order of their Export Potential to the World

	Product potential in Different Region			
Product Group	**Average Export (2009-2013)**	**Unrealised Potential Sub-Saharan Africa**	**Unrealised Potential non-OECD**	**Unrealised Potential OECD**
Coffee	703,658	76%	54%	16%
Sesame Seed	375,204	81%	39%	47%
Vegetables	284,651	41%	46%	93%
Cut flowers	210,099	29%	58%	27%
Goat Meat	46,133	100%	25%	100%
Live bovine animals	100,655	8%	48%	100%
Kidney Beans & White pea beans dried shelld	70,334	10%	7%	33%
Live Sheep	15,414	6%	89%	100%
Skins, leather of sheep	54,512	97%	31%	43%
Chickpeas	31,410	6%	33%	75%
Other live animals	31,688	5%	61%	99%
Other oil seeds	32,045	98%	38%	71%
Ginger	12,090	2%	42%	98%
Natural gums, resins, gum-resins and balsam	9,769	87%	60%	71%
Pigeon peas and other leguminous vegetables	6,741	31%	84%	83%

Source: International Trade Centre

The table above illustrate that among the top five agricultural export coffee, sesame seed, and goat meat export have unrealised potential in Sub-Saharan Africa. Other export commodities such as vegetables, live sheep, live bovine animals, goat meat also have enormous unrealised potential in OECD countries. This ring a bell on increasing the number of trading partner as well as enhancing regional trade among African countries. Inter-Africa trade is considered as low compare to any other region in the world which confirm the need to deepening inter-Africa trade.

The other common feature of Ethiopian export commodities is the lack of value addition. For example, coffee is Ethiopia's prime export product but due to low quality and value addition, the country could not reap the commodity's full potential in the export market. According to a study done by the World Bank in 2013, a raw and unprocessed green coffee bean is sold for around $2 per kg. On the other hand, one kg of roasted Ethiopian coffee retails for as much as $40 per kilo in international markets (World Bank, 2014). Certainly, Ethiopia needs to build on its agricultural foundation by adding quality and value to its exports. In the above case, roasting coffee would considerably increase its value.

To benefit from international trade through WTO accession, increased diversification of export merchandise and partners and the higher level of processing is required. In a short run, the objective of increasing export can only be achieved, among other factors, through increased productivity, quality and value addition to the agricultural products. In a long run, creating an enabling environment for enhanced private investment, decreasing the very high transaction cost and developing the weak institutional structure to facilitate trade will support the growth of the economy. In this context, the country equally needs to address other constraints in its export sector such as reliable access to credit, electricity and foreign exchange.

As it can be seen from table 6, the big chunk of Ethiopia's imports is dominated by capital goods and petrol products which constitute 49.1 percent of the overall import over the past three years. Import products are largely processed goods such as chemicals, mainly fertilisers, machinery and equipment, and tyres, in addition to petroleum and its by-products. Ethiopia has five major imports partners namely: EU, China, Kuwait, USA, and UAE. Transport equipment and machinery are mostly originated from the EU and the petroleum products from the Middle East. Over the past three years, Ethiopian imports have generally increased in terms of import values and average import growth rate, and China, EU and Kuwait remained the major partners.

When we look at the characteristics of imports, they are intrinsically highly price inelastic which are either necessities in consumption or production or very strategic commodity and they are invariably required by the country. From this point of view of imports and exports, it is unlikely to expect the neo-classical theory of comparative advantage to apply to Ethiopia. That is why the government of Ethiopia embarked on extensive industrial policy measures to alter the structure of the economy from an agrarian into manufacturing based economy.

Table 6: Major Imports with Corresponding Value

Import Items (Value in Millions of USD)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Machinery, nuclear reactors, boilers, etc	681.90	913.08	920.34	1 025.82	1 115.68	1 150.28	1 637.86	2 098.99	2 937.83	3 437.24
Electrical, electronic equipment	358.48	546.39	1 016.43	1 175.14	1 129.25	626.34	968.37	1 031.25	2 159.73	3 323.94
Mineral fuels, oils, distillation products, etc	1 042.94	797.97	2 053.84	1 305.68	1 642.07	1 632.02	2 480.49	1 865.57	3 869.39	2 552.09
Vehicles other than railway, tramway	770.47	650.38	525.68	520.40	836.26	893.76	1 238.62	1 710.37	1 850.09	2 468.58
Plastics and articles thereof	128.98	151.83	230.64	200.61	222.96	283.87	361.93	723.54	996.02	1 389.98
Articles of iron or steel	128.84	176.86	235.27	350.67	340.65	210.80	412.88	493.50	1 069.42	1 231.05
Animal, vegetable fats and oils, cleavage products, etc	68.09	105.99	247.89	240.37	260.20	391.73	417	449.17	51117	1 128.39
Iron and steel	236.97	385.14	443.69	380.66	318.94	453.17	721.99	706.66	869.63	1 094.96
Cereals	98.76	149.20	576.87	368.20	374.36	471.43	416.65	685.44	616.21	767.84
Pharmaceutical products	156.15	216.02	213.36	323.21	250.36	120.66	174.78	552.04	432.46	701.72
Rubber and articles thereof	92.13	101.78	131.90	163.53	167.30	161.28	211.37	365.09	435.73	462.13
Furniture, lighting, signs, prefabricated buildings	61.09	71.67	70.08	66.38	73.94	111.61	110.34	162.19	305.65	437.73
Others	1 382.53	1 542.35	2 014.34	1 853.23	1 869.81	2 389.34	2 760.66	4 055.33	5 861.06	6 819.62
Total	4 526.10	5 808.65	8 680.33	7 973.88	8 601.77	8 896.29	11 912.93	14 899.15	21 914.37	25 815.26

Source: International Trade Centre and own calculation

Despite the offer of predictable and transplant market access the WTO membership present, Ethiopia's exports might be confronted with other non-tariff barriers especially Sanitary and Phytosanitary measures. The country is expected to comply with international standards. This will force Ethiopia to set up a system which will enhance the quality of the agricultural exports. Apparently, this could help to curb the supply side constraints such as backward technologies, poor infrastructure, and institutional challenges.

Ethiopian Standards Agency will have a daunting responsibility of harmonizing country's export product in conformity with the WTO Sanitary and Phytosanitary Information Management System. Xiaoyang et al. reported that standards and technical regulations in developed countries do affect firm's tendency to export in developing countries (Xiaoyang, Tsunehiro, and John, 2006). Other hindering factors for expansion of trade include high trading costs due to weak infrastructure links and poor transport logistics. To make use of the increased market access slackening Ethiopia's supply constraints is a big task.

The key to benefiting from WTO membership emanates from establishing dependable national competitive capacity to make use of the increased market access. Ethiopia government is aware of the role of competition can play in the economic development and has started further to open up the business sphere to foreign competition. In this regard, WTO accession will facilitate the conformity of domestic regulation to further allow foreign investors in highly protect economic sectors namely, banking and telecommunication. This will not only unleash the growth potential of the sectors, but also it will have positive spill over impact on the overall economy.

Creation of transparent and predictable business environment for entrepreneurs is the other benefit of Ethiopia joining the WTO. This is to mean that the administrative procedures will not

change frequently and any special state favour of specific enterprises will be adopted. Particularly measures such as stressing the simplification of import and export licensing. The Ethiopian government has been taking actions to simplify administrative procedures in doing business. However, the country is still ranked 146 out of 189 countries in the World Bank the easy of business doing 2016 report (World Bank Group, 2016).

This clearly demonstrates simplification of administrative procedures and increasing transparency and control are also very important to increase the competitiveness of Ethiopian products. Almost all trade partners of Ethiopia claim that procedures of import customs clearance are one of the main nontariff trade barriers (Ekubay, 2015). At the same manner, liberalisation of financial and banking markets will also promote a reduction of interest rates for Ethiopia enterprises. The present high level of interest rates is one major obstacles to access funding for investment.

One of the most frequently mentioned negative consequences of accession is that it will bring fierce competition to the business environment. This is related to the possibility of a rapid increase of imports and consequently severe competition for local producers in the domestic market. However, the experience of other countries shows that a dramatic increase of imports will not happen. This, in particular, is caused by special characteristics of domestic Ethiopia market, which is protected from imports by such special factors as substantial transportation costs of import delivery, unsatisfactory infrastructure for receiving and distribution of large amounts of imports in regions, relatively low purchase power of the population, high level of the informal economy.

On the contrary, the accession may have its own implications on smallholder farmers such as importation of cheap subsidised products. This may subject the subsistence farmers to fierce competition even at the domestic market. Here it can be argued that the country's unique staples may discourage the demand for imported food products. However, this unique food habit can possibly change if other cheap alternatives are available. Thus, the possible cheap food import could be a disincentive to subsistence farmers, which may ultimately force them out of food production risking national food security. Special caution should be taken in negotiating the terms and conditions with regard to agricultural products.

4.2. Balance of Payment Disequilibrium

The following discussions revolve around the major macroeconomic challenges for Ethiopia as a result of opening up the trade regime to external competition. WTO accession will have a serious effect on domestic macroeconomic policies of which the effect on the balance of payment current account cannot be ignored. This analysis will focus on the past and present balance of payment disequilibrium as a result of the country's dependence on the export of few agricultural commodities.

Despite the recent economic accomplishments, the Ethiopian economy has been faced with serious macroeconomic imbalances. Among which, deepening foreign exchange shortage, high inflationary pressure which resulted in highly negative interest rate, balance of payment deficit and an overvalued exchange rate are the major challenges (IMF, 2012). The balance of payment disequilibrium is aggravated by a huge deficit in the current account.

The current account disequilibrium which primarily triggered by an imbalance between country's export and import occurs when a country has fewer export items as compared to

imports. As a result, imports will become in excess of exports and countries will face current account deficit. The BOP constrained growth model hypothesises that the rate of economic growth in any nation is constrained by its balance of payment as growth cannot be higher than the level of the balance of payment equilibrium, or, at least consistent with deficit in the balance of payment. Thirlwall has further argued that sustained growth and structural change in developing countries is threatened by a structural balance of payment constraint, posing critical policy challenges for governments (Thrilwall, 2002).

Ethiopian economy has been struggling with the incessant balance of payment deficit in recent history. In view of this fact, this analysis seeks to provide an explanation on the challenges of Ethiopia ‘s accession to the WTO in relation to the ongoing balance of payment disequilibrium.

A prolonged balance of payment deficit could stifle growth. A persistent deficit will tend to deplete country’s foreign exchange reserves. Ethiopia has faced large deficits in its balance of payment since the late 1990s (Anega, 2010). Balance of payment deterioration in Ethiopian context is fundamentally structural in nature meaning that demand and supply relations of exports and imports are strategic. Imports are crucial in nature and are price insensitive as well as consistently required by the country. Therefore, it cannot simply be discouraged or easily substituted. Exports, on the other hand, are highly price elastic and concentrated in certain agricultural produce that are very sensitive to weather condition and price shocks. Subsequently, the gap between exports and imports leads to a persistent deficit in the trade balance in Ethiopia.

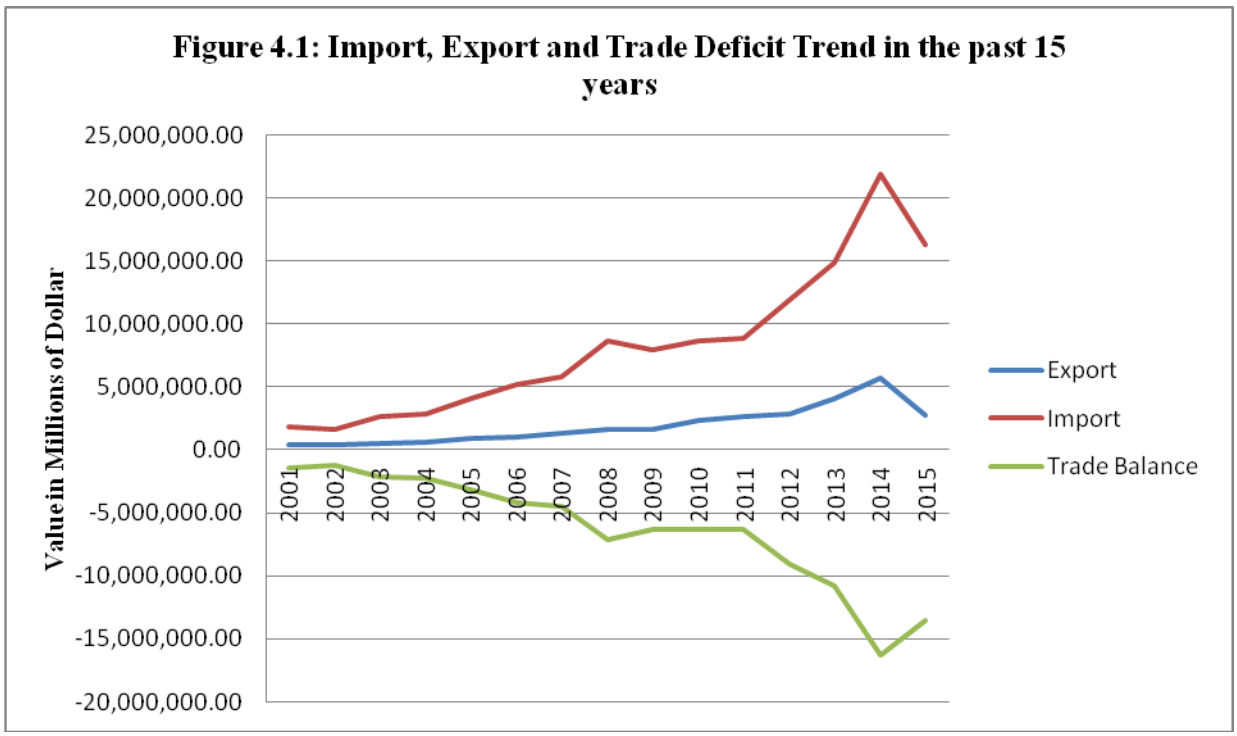
It has now become a common language that Ethiopia’s foreign trade is characterised by commodity concentration referring to high agricultural dependence on the export side, and high capital and consumer concentration on the import side. There is a conscience that such

commodity and market concentration are the major causes for the instability of LDC's export earnings to which Ethiopia is no exception. Balance of payment disequilibrium is invertible in such circumstance.

4.2.1. Trends of Export, Import and Trade Balance

To illustrate the above-mentioned facts with relation to the ongoing balance of deficit, this study has examined 15 years import, export and trade balance data obtained from International Trade Centre. Figure 4.1 shows that there was substantial growth in both imports and exports between the period of 2000 and 2014. While both export and import has shown a significant change, the trade deficit has been widening further owing to the fact that export base is mainly primary in nature and import growth is relatively larger than the export growth.

During the past fifteen years, a rise in total exports was not proportionate with the rise in import bill; as a result, deficit in merchandise trade widened from $1.4 billion in 2000 to $13.5 billion in 2015.



Data source: International Trade Center and own computation

The escalating balance of payment deterioration, regardless of the increase in export volume, reflects a sharp decline in the price of Ethiopia's main commodity goods, mainly coffee, due to subdued external demand conditions. The solid growth in other export sectors such as oilseeds, leather and flower were not capable of counterbalancing the increasing import which aggravated the trade deficit. To boost export, Ethiopia needs to build on its agriculture base by adding value to existing commodities and further diversifying exports.

Merchandise export earnings were $4.08 billion, $5.6 billion and $2.7 billion in 2013, 2014 and 2015 respectively. The performance registered in merchandise export earnings in the past three years of GTP lags behind the target set to be achieved at the end of the GTP period which is $6.5 billion. One of the reasons for the low performance in merchandise export earnings is a decline in international market prices of export commodities such as coffee as well as the current

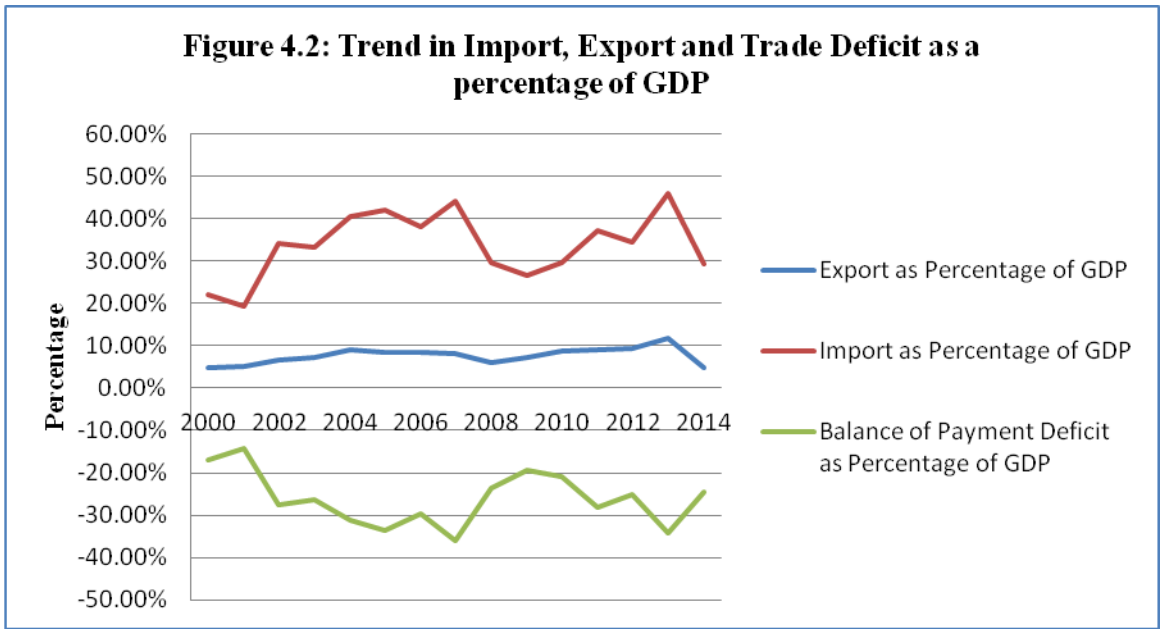
drought which severely affect agricultural production. However, the key factor for the low export performance is limited supply capacity to significantly expand export production. The focus therefore, should be on increasing the production of export commodities given the required quality standards and prices. Thus to enhance export revenue generation, it is crucial to improving the domestic production capacity in general and increase agricultural productivity and industrial production in particular. To this end, improving the effectiveness and implementation of the various export promotion policies is vital to fast-track export trade volume.

4.2.2. Export, Import and Trade Balance as percentage of GDP

Figure 4.2 shows the export, import and trade balance as a percentage of GDP. The current account deficit as a percentage of GDP reached at all time high of 36% in 2007 which indicate that a high level of import and low level of export. Exports on the other hand, were 12% of the GDP in 2013, which is the highest in the period under consideration. Over the past 15 years, export averaged 8% of GDP. However, this is considerably low as compared to other neighbouring countries such as Kenya 22%, South Sudan 66.1 and Sudan 17%.[5]

Trade balance as a percentage of GDP was 24 % in 2015 and averaged 26 % in 15 years' period. Imports in contrast, averaged 34% as a percentage of GDP for the period under consideration.

[5] Data Source: World Bank, World Development indicators. Available at: http://data.worldbank.org/indicator/NE.EXP.GNFS.ZS



Data source: World Trade Organisation and own computation

Export as a percentage of GDP has shown an increasing trend since 2001, nonetheless it failed to match the fast pace of import increase as a result, the trade deficit as a percentage of GDP has been increasing. This clearly shows that the balance of trade deficit both in absolute term and as a percentage of GDP has been increasing persistently.

There is no doubt that more liberal trade regime encouraged by WTO accession will bring fierce competition to the business sphere which will further deteriorate the current account balance-of-payment disequilibrium. Thus, the country has to advise ways of expanding its export bases. For example, recent development in the floriculture industry to expand the export bases away from traditional commodities is an excellent development. This will also assist the economy which is struggling with foreign exchange shortage.

Some argue the deterioration as a result of trade liberalisation will only be short lived as it can be materialised by higher exports due to improved market access abroad. The external vulnerability

of countries may thus be exasperated if the time lag between the two effects is long. The key to benefiting from WTO accession comes from developing a reliable national capacity. This can only happen in competitive business economic finance spheres recognising the role of the competition in the economy and promoting private sector investment.

CHAPTER FIVE

5.0. CONCLUSION AND RECOMMENDATION

5.1. Conclusion

The main objectives of this study have been to examine the possible effect of WTO accession in Ethiopian economy which adds to the understanding of the challenges and opportunities of WTO accession in case of least developed countries. Accordingly, the study has examined the role of WTO accession could play in widening the market access, as well as the difficulties the country would face as a result of current account BOP deficit.

The most important conclusion emanate from this study is that the benefits from WTO membership in terms of increased market access for existing export commodities are likely to be narrow. However, it is very important that the impact of accession to the WTO is clearly understood and the internal constraints and external factors that determine successful integration adequately examined. The likely impact of the accession, both positive or negative, will depend, among other things, on the country's ability to properly manage the transition with appropriate policies and institutions and to negotiate accession terms and conditions that suit the realities in the ground.

This study revealed that there is a high concentration in commodity and country of destination for the country's exports. Implying that, there is absence of economic transformation and lack of structural change in the export base. Although the export sector has shown diversification in the past decade mainly due to cut flower export there is still untapped potential in increasing productivity and value addition among the existing crops.

The export performance was hampered by different internal and external factors, including infrastructure, lack of skilled manpower, vagaries of nature, and SPS measures in the advanced countries. These challenges suggest that the country should centre its attention to diversifying exports in a rapid and sustainable way. To benefit from the accession, Ethiopia needs to strengthen its domestic industries by the means of industrial policy and increase its export competitiveness. Improving countries position in the international trade will enable it to benefit from the existing and future opportunities in the global trading system.

To continue the growth momentum and to exploit the opportunities created by WTO membership, the country needs to emphasis on export diversification and sophistication. This will eventually help to decrease the adverse effects of the membership, such as damping of imports and the BOP disequilibrium. The country also has immense potential for growth, abundant natural resource and productive land to mention few. Efforts should be geared towards these resources to faster growth in agriculture as well as the manufacturing sector.

Ensuring export diversification require identifying key supply-side constraints that hinder the export sector's performance and taking necessary actions to improve domestic conditions for business development and investor participation. For instance, poor infrastructure is one of the stabling block for attracting foreign investment.

This study also attempted to shed light on the post-accession challenges of the balance of payment disequilibrium. The ongoing current account deficit primarily due to excessive import and lesser export could possibly worsened as a result of accession. In such a case ensuring export diversification and increasing its value could help the country to expand its economy and bring a structural change that would diversify the productive strategies through more proactive policies.

Overall, WTO membership will have wide-ranging social-economic impacts. In a short term, accession may have its own difficulties and the tangible benefits to be gained from accession might be marginal. Since the immediate costs of accession, adjustment, and risks of exposure to international competition must be borne upfront. However, membership can lead to gradual benefits from multilateral trade liberalisation.

5.2. Recommendations

The following recommendations were suggested by looking into the analysis and other developing countries experience that passed through the similar challenge at the time of WTO accession.

1. Increasing export competitiveness needs to be strengthened and opportunities for import substitution need to be exploited by leveraging Ethiopia's large domestic market size by means of industrial policy measures. Revitalisation of manufacturing to substitute imports of manufactured products will not only assist in tackling the current account deficits but also create jobs for skilled and unskilled workers supporting the effort in poverty reduction.
2. The study suggests the need for a concentrated effort to improve the internal conditions, especially diversification of the productive structure and curtailment of supply-side constraints to bring structural transformation. Building the capacity of existing manufacturing firms and setting up joint ventures with multi-national corporate firms to gain from the transfer of their expertise.
3. Under performance of export sector was a key challenge in the implementation of GTP I in the past five years. Adding pressure to foreign exchange shortage to finance

development projects. Accordingly, increasing exports is a great means for rescuing the country from its excessive aid dependence and eradicating poverty.

4. It is impossible to imagine a vibrant economy without structural transformation. In other words, Ethiopia should diversify its economy towards income-elastic and high-value-added products, away from primary agricultural product.
5. As a vehicle towards the realization of Ethiopia's vision of becoming lower middle income country by 2025 and to pull out the country from its entrenched poverty, efforts should be geared towards mechanisation of agriculture export expansion and domestic production of agricultural inputs such as of fertilizers and agrochemicals which could substantially decrease the import bills and at the same time help to minimised the BOP deficit.
6. Substantial emphasis should also be given to bring about a shift to increase the role of manufactured products in export earnings with a particular focus on leather, shoes and other leather products, textile and garment, agro-processing industry products (food & beverages) and sugar, important products for expanding export earnings in a short term.
7. Ethiopia should strengthen the domestic capacity to enable the country integrate into the competitive world economy as a competent trading partner which will meet all international quality requirements and standards. This can only be successful if the country establishes enabling environment for private sector investment such as infrastructure and institutions to manage its trade and investment in a rule-based trading system.

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APPENDIX

Status of Ethiopia's accession

1.	**Application Received**	13 January 2003
2.	**Working Party Established** Chairperson: H.E. Dr. Steffen Smidt (Denmark, Oct 2010 —) Mr. N. McMillan (UK, May 2003 - May 2009)	10 February 2003
3.	**Memorandum**	25 January 2007
4.	**Questions and Replies**	8 February 2008
5.	**Meetings of the Working Party**	16 May 2008 6 May 2011 27 March 2012
6.	**Other Documentation**	
	(a) Additional Questions & Replies	20 February 2012
	(b) Information on agriculture (WT/ACC/4)	17 February 2012
	(c) Information on services (WT/ACC/5)	
	(d) SPS/TBT checklists (WT/ACC/8)	27 April 2011
	(e) TRIPS checklist (WT/ACC/9)	17 February 2012
	(f) Legislative Action Plan	17 February 2012
7.	**Market Access Negotiations**	
	Goods Offer (a) initial (b) latest	17 February 2012
	Services Offer (a) initial (b) latest	
8.	**Factual Summary**	2 March 2012
9.	**Draft Working Party Report**	

List of Least Developed Countries in WTO

No.	List of Countries	Data of accession
1.	**Angola**	WTO since 23 November 1996 and a member of GATT since 8 April 1994.
2.	**Bangladesh**	WTO since 1 January 1995 and a member of GATT since 16 December 1972.
3.	**Benin**	WTO since 22 February 1996 and a member of GATT since 12 September 1963.
4.	**Burkina Faso**	WTO since 3 June 1995 and a member of GATT since 3 May 1963.
5.	**Burundi**	WTO since 23 July 1995 and a member of GATT since 13 March 1965.

6.	**Cambodia**	WTO since 13 October 2004
7.	**Central African Republic**	WTO since 31 May 1995 and a member of GATT since 3 May 1963
8.	**Chad**	WTO since 19 October 1996 and a member of GATT since 12 July 1963.
9.	**Congo, Democratic Republic of the**	WTO since 1 January 1997.
10.	**Djibouti**	WTO since 31 May 1995 and a member of GATT since 16 December 1994.
11.	**Gambia**	WTO since 23 October 1996 and a member of GATT since 22 February 1965.
12.	**Guinea**	WTO since 25 October 1995 and a member of GATT since 8 December 1994
13.	**Guinea Bissau**	WTO since 31 May 1995 and a member of GATT since 17 March 1994
14.	**Haiti**	WTO since 30 January 1996 and a member of GATT since 1 January 1950.
15.	**Lao People's Democratic Republic**	WTO since 2 February 2013
16.	**Lesotho**	WTO since 31 May 1995 and a member of GATT since 8 January 1988
17.	**Madagascar**	WTO since 17 November 1995 and a member of GATT since 30 September 1963
18.	**Malawi**	WTO since 31 May 1995 and a member of GATT since 28 August 1964
19.	**Mali**	WTO since 31 May 1995 and a member of GATT since 11 January 1993
20.	**Mauritania**	WTO since 31 May 1995 and a member of GATT since 30 September 1963
21.	**Mozambique**	WTO since 26 August 1995 and a member of GATT since 27 July 1992
22.	**Myanmar**	WTO member since 1 January 1995 and a member of GATT since 29 July 1948
23.	**Nepal**	WTO since 23 April 2004
24.	**Niger**	WTO since 13 December 1996 and a member of GATT since 31 December 1963.
25.	**Rwanda**	WTO since 22 May 1996 and a member of GATT since 1 January 1966
26.	**Senegal**	WTO member since 1 January 1995 and a member of GATT since 27 September 1963.
27.	**Sierra Leone**	WTO since 23 July 1995 and a member of GATT since 19 May 1961.
28.	**Solomon Islands**	WTO since 26 July 1996 and a member of GATT since 28 December 1994.
29.	**Tanzania**	WTO member since 1 January 1995 and a member of GATT since 9 December 1961.

30.	**Togo**	WTO since 31 May 1995 and a member of GATT since 20 March 1964
31.	**Uganda**	WTO member since 1 January 1995 and a member of GATT since 23 October 1962
32.	**Vanuatu**	WTO since 24 August 2012.
33.	**Yemen**	WTO since 26 June 2014
34.	**Zambia**	1 January 1995 and a member of GATT since 10 February 1982

List of LDCs' in the process of accession

No.	Countries	Date of Application
1.	Afghanistan	21 November 2004
2.	Bhutan	1 September 1999
3.	Comoros	22 February 2007
4.	Equatorial Guinea	19 February 2007
5.	Ethiopia	13 January 2003
6.	Liberia	13 June 2007
7.	Sao Tomé & Principe	14 January 2005
8.	Sudan	11 October 1994