

Chapter 64

Integration to the WTO and Economic Transition in the South Caucasus Economies

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ABSTRACT

Economic transition story in the South Caucasus economies started after the collapse of the Soviet Union. Theoretically, integration to the World Trade Organization (WTO) system should improve the economic transition performance. This research uses the yearly transition indicators by the EBRD to discover the relationship between economic transition performance and integration to the WTO in the contexts of before-and-after WTO membership and before-and-after the end of concession period defined for a new member to implement all obligations. Author employs bivariate de-trended regression analysis estimated by using Ordinary Least Squares (OLS), individually for Armenia and Georgia, and within a panel analysis covering all three countries of the region. Research findings provide strong evidence of significant positive or acceleratory effect of integration to the WTO on economic transition in the South Caucasus. Surprise finding is insignificant impact over competition policy index, which is supposed to be affected by integration.

INTRODUCTION

When Georgia acceded to the World Trade Organization (WTO) in June 14, 2000, WTO Director-General Mike Moore expressed that “this accession is particularly noteworthy given Georgia’s remarkable transition to a market economy” (International Centre for Trade and Sustainable Development, 2000). This research investigates the role of integration to the WTO over the economic transition performance of South Caucasus economies, namely Georgia, Armenia, and Azerbaijan.

The WTO encompasses most of the world countries as the largest trade organization in the world of today. Founding of the organization started in the second half of the 1940s or more precisely, by signing the General Agreement on Tariffs and Trade (GATT). From the end of the 1940s until now, the GATT

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has been a subject to many trade negotiations and was transformed to the GATT 1994 when the WTO was established. As the aim of this organization is enhancing trade liberalization and opening trade to all countries to benefit, its role in economic transition of former centrally planned economies is a subject of this study. Thus, the WTO has several compulsory principles, which must be followed by all member countries. Moreover, a country that wants to join the WTO passes several stages and undertakes obligations for the WTO until its accession as a full member.

After the establishment of Bretton Woods system, the idea of the GATT was purposed due to the aim of increasing the living standards, continuous rising of real income and effective demand, achieving the full employment, the “full use” of world resources and enlargement of goods production / trade (Irwin, 1995). In order to achieve these aims, the GATT would decrease tariff and non-tariff barriers over trade and remove discriminatory trade policies in international trade in the context of “reciprocal and mutually advantageous arrangements” (Irwin, 1995, p. 324).

After 1947, the scope and the sphere of influence of the GATT were enlarged as a result of the rounds of negotiations in Geneva (1947), Annecy (1949), Torquay (1951), Geneva (1956), Dillon (1960-1961), Kennedy round (1964-1967), Tokyo round (1973-1979), and Uruguay round (1986-1993) (Oatley, 2008, p. 26). After Uruguay round, the WTO was established on the basis of the GATT-1994, General Agreement on Trade in Services (GATS), Trade-related Investment Measures (TRIMs), Trade-related Aspects of Intellectual Property Rights (TRIPS) within “Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations Marrakesh Agreement Establishing the World Trade Organization” (World Trade Organization, 2011).

Despite the expectations from the WTO to make better of all countries through the tools mentioned above, it is still under question if the organization does this. As the direct impact is over international trade, many empirical studies investigated if the WTO really increased trade, some of them found insignificant effect (Rose, 2004a, 2004b, 2004c; Gowa & Kim, 2005; Park, 2009; Eicher & Henn, 2011; Roy, 2011; Swinnen, Olper, & Vandemoortele, 2012) while many others revealed significant impact of the WTO over trade (Subramanian & Wei, 2007; Tomz, Goldstein, & Rivers, 2007; Tomz, Rivers, & Goldstein, 2007; Balding, 2010; Liu, 2009; Dutt, Mihov, & van Zandt, 2013; Konya, Matyas, & Harris, 2011; Kim, 2008; Grant & Boys, 2012; Herzl & Warner, 2011; Chang & Lee, 2011; Anderson, 2010; Mansfield & Reinhardt, 2008; Jansen, 2010; Buthe & Milner, 2008; Shah, Hasnat, & Li, 2010). However, none of those has analysed the impact of the WTO membership over economies in transition.

This study attempts to fill this gap partially, for the South Caucasus economies. The South Caucasus region covers three independent countries – Armenia, Azerbaijan, and Georgia, which all had centrally planned economic system within the Soviet Union until its collapse in 1991. All three declared the desire of liberalization or from economic point of view, economic transformation towards market economy immediately after the declaration of their independence. Integration process of these economies into the WTO will be discussed in the following section. Before, it is noteworthy to mention what determines the economic transformation.

In a centrally planned economy, trade and all other aspects of international exchange of goods and services are controlled by the government institutions such as ministries and state owned trading enterprises (Michalopoulos, 2000, pp. 65-66). Here, the data for economic transition of these countries are the yearly transition indicators, output of European Bank of Reconstruction and Development (EBRD). Instead of calculation an overall transition indicator, the EBRD divides the transition into 6 categories: 1) large-scale privatization, 2) small-scale privatization, 3) governance and enterprise restructuring, 4)

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