

Is Yemen Enough Prepared to Join WTO?

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The European Commission assistance to Yemen develops an increasing bias towards economic and private sector development. The recently launched Tourism Development Program, the Commission's approval of assistance to Aden Free Zone Development and the preparations of a project for the establishment of a business centre in Sana'a underline this trend. The Government has now asked the EC to examine Yemen's preparedness for joining the World Trade Organization and propose a long-term technical assistance program in support of Yemen's accession and post accession process. Given the controversy surrounding the alleged benefits that developing countries can draw from WTO membership *Yemen Times* took the opportunity to meet with the EC consultants charged with the aforesaid study and **Dr. Saul Alanoca**, a Sr. Trade Adviser on WTO accession, **Mark Hellyer** a Trade Economist and with **Rainer Freund**, Head of the EC Technical Advisory Office in Sana'a.

Q: There seems to be considerable confusion as to what the objectives of the World Trade Organization are, but also a prejudice that WTO bolsters the position of the advanced, industrialized economies in World Trade and that particularly the least developed countries seem to lose the little ground they had gained in World Trade as a direct result of WTO membership. Could you briefly clarify this issue?

A: There is no evidence that trade worsens after WTO membership. In fact, the contrary is true. Adopting the rules and regulations of trade, which are now used and considered the norms by more than 130 countries worldwide, makes it easier for companies in a country to compete in international markets. The commitments, which will be made at the WTO, are really extensions of the reform policies pursued by the government of Yemen and are aimed at strengthening the economy and developing export led growth. It should also be remembered that the Accession process to WTO is not fixed and is a framework with many parameters determined through a series of bi-lateral and multi-lateral negotiations. Therefore, there is opportunity through negotiation to be granted a long period for implementation of the more than 14 Agreements under the WTO. For developing countries, this can be up to 10 years. Considering that it takes most countries, on average, 4 years to join the WTO, Yemen can expect up to 14 years before all commitments to the WTO need to be fulfilled. This provides plenty of scope for policy makers and local enterprises to adjust and prepare so that any potentially negative effects are minimized.

Q: Yemen has had an observer status at the WTO and has now applied for membership. Particularly the private sector seems to be wary of the implications of Yemen's WTO membership and cautions the government that Yemen's industry is not ready yet to compete internationally and that widespread loss of jobs is a likely consequence, should membership materialize. What has a country such as Yemen to gain from WTO membership and how can the negative effects of trade liberalization on Yemen's economy be best averted?

A: Probably the most important benefit is the economic benefits of WTO membership. Under WTO rules, domestic prices in Yemen would fall as the import regime is liberalized and the general population would be able to afford and purchase more goods and have a wider choice. In addition, producer's costs would reduce leading to increased output (economic growth), increased exports and increased employment. On the other hand, it is understood that this will bring more competition from imports and certain sectors of the Yemeni economy will find it difficult to cope. Therefore, detailed analysis and study of all sectors of the economy need to be undertaken to determine those industries which are now competitive, which could be competitive in time and those which can never be competitive. In such circumstances, the WTO allows for flexibility so that during the negotiations, such arguments would be used so that those industries which could be competitive in the future would be protected for several years whilst the government and industry work to improve competitiveness and those industries which could never be competitive would be protected for a longer period whilst efforts to encourage diversification and restructuring to more competitive products is undertaken. Hence, the key to minimizing the negative impacts, is on preparing good arguments and negotiating with the members of the WTO during Accession.

Q: Where does Yemen stand now in regard to WTO accession, what are the next steps and how long do you foresee the accession process to take and what are the most important adjustments Yemen has to make to its current trade regime to comply with WTO rules? How does Yemen compare with other applicants from the developing world or LDCs that have already acceded in terms of preparedness of the institutions that are to prepare the necessary paperwork for review by the WTO?

A: Yemen has formally applied to become a member of WTO and members have welcomed and accepted this application. Yemen must now prepare its Memorandum of Accession. This document must comprehensively describe and detail the current laws, regulations and regimes regarding all aspects of the WTO Agreements including tariffs and trade (GATT 94); agriculture; services (GATS), intellectual property (TRIPS); investment (TRIMS) and many others. The object is to allow WTO members to examine how close Yemeni law and practice is to WTO rules. After that, bi-lateral negotiations are undertaken with individual members of WTO to agree how and when Yemen will implement each agreement. In fact, Yemen's current regime is fairly liberal following implementation of the reform program since 1995 and no radical changes in the trade regime are expected. Given Yemen is an LDC, any changes would happen gradually over time. Compared with other developing countries Yemen seems quite well prepared. The government has established a coordination unit, national committee, and several sub-committees to address the issue and there is great awareness of the scale of the task in hand. So, from this perspective, Yemen is already more advanced than other countries we have worked with at this stage of the process. However, it needs to be remembered that this is a long process, and much work is needed, so strong government commitment and hard work is needed to complete the task.

Q: What type of assistance is Yemen most likely to benefit from about its bid for WTO accession and how do you estimate the cost of the entire accession process?

A: The various WTO Agreements are extensive and complex and although many officials have had some training, they are inexperienced in WTO matters. We therefore feel that the most beneficial assistance, which can be provided by the EU, is that of administrative support and guidance to the National Committee for WTO Accession through its Coordination Unit. However, much more assistance is needed throughout the government with all Ministries involved in the process requiring training, support, and technical assistance. It is difficult to precisely cost all the elements necessary as the extent and scope of assistance depends on the negotiations themselves. For comparison, it should be noted that Jordan estimated the cost of Accession at US\$ 5 million. A similar figure would be expected in the case of Yemen.

Q: Mr. Freund, is there a shift in the focus of the European Commission's assistance to Yemen given the apparent increase to economic and private sector development?

A: Not really - the Commission has agreed with the government of Yemen to continue to allocate approximately 50 % of funds annually available under the EC-Yemen co-operation framework to social protection including food security and 50 % to direct assistance to selected components of Yemen's structural adjustment program and support to those sectors of the Yemeni economy that have the potential to grow quickly and thus generate employment. Our assistance to Tourism Promotion, Aden Free Zone Development, Private Sector Development in General and Fishery Products Export fall into this latter category. The liberalization of trade regimes is obviously an important pre-requisite not only for the expansion of trade per se but also for attracting both domestic and foreign direct investment - it creates new job opportunities and benefits the consumer through more choice and lower prices. Recognizing the linkage between poverty and an over regulated, non-enabling economic environment, even the Commission's social protection programs have in part been made contingent on advances in market liberalization. Our food security program for example under which thus far 36 million have been committed, was conditional on the removal of the wheat and wheat flour subsidies that were previously in place in this country as well as on the liberalization of the internal distribution of these two commodities. The previous subsidy system for these basic foodstuffs was a drain on the scarce resources of the treasury, a disincentive to local food producers and, being a universal subsidy, had a comparatively low impact on the vulnerable groups it intended to target. The freeing of government funds previously allocated to this system has not only removed market distortions, introduced more competition, and provided incentives for local cereal producers. It has also allowed government to support the poorer segments of society more effectively by tailoring intervention mechanisms to the specific causes of poverty - the Social Fund for Development and the Social Welfare Fund both of which the European Commission assists are only two such examples. Whilst we strongly support the reform policies adopted by government and particularly those which inspire trade and investor confidence as the fundamental pre-requisite for economic growth and thus poverty reduction, we help at the same time to cushion the temporary negative effects of some of these reforms on the poor through our strong commitment to social protection. The orientation of our program has thus not changed, but it has undoubtedly become more focussed.