What shapes Ethiopia's foreign economic policy? The case of Ethiopia's accession to the WTO

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The Case of Ethiopia's Accession to the WTO

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Abstract

The objective of this paper is to analyze Ethiopia's WTO accession process, including its institutional capacity (in terms of human capital and other resources) and how the various domestic political aims, structures and constraints affect the accession process. WTO accession involves a complex and lengthy process, especially for LDCs that aim to implement industrial policies in terms of supplying credit, foreign exchange allocation, import tariffs, export subsidy, etc. Such industrial policies require autonomous policy space, which sometimes run counter to WTO principle and agreements. Ethiopia is a case in point.

The combination of its desire to practice industrial policy and thus its need to have a policy space and the availability of favorable access to international markets suggests that joining the WTO shouldn't be high on the agenda of the government of Ethiopia. However, the government has put forward its desire to join the WTO and the reasons behind it include: the existence of non-tariff barriers despite AGOA and EBA, the binding tariff rate of the goods market being not much lower than Ethiopia's current rate, and the fact that it gets more stringent to join once the country achieves middle income status. Given this desire to join the WTO one expects the process of accession to proceed at a much faster rate. Examination of the reasons for the delay reveals two different potential explanations: (i) rigid policies and restrictions in the service sector (notably telecom and finance) that stem from the ideology of developmental governance, and (ii) lack of experienced and trained man-power in trade areas. We found, on the other hand, that political constraints due to interest groups and various political aims had little impact.

Key words: WTO accession, industrial policies, Ethiopia, trade, structural transformation

1. Introduction

Why countries engage in international trade is well-established in the literature. International trade is a key contributor to growth and poverty reduction. For instance, evidence shows that at the macro-level, past trade liberalizations have generated on average about two percentage points of additional growth per year; and at the micro-level, export-oriented firms are more productive and pay higher wages than non-exporting firms (e.g., see Wacziarg and Welsh, 2008). As a result, there have been massive liberalization reforms that resulted in major reductions in trade barriers. The General Agreement on Tariffs and Trade (GAAT) was established in 1947, which was later restructured as the World Trade Organization (WTO), to provide a forum for negotiating agreements aimed at reducing obstacles to international trade and ensuring a level playing field for all. The WTO also provides a legal and institutional framework for the implementation and monitoring of these agreements, as well as for settling disputes arising from their interpretation and application.

However, even though trade might be socially beneficial, there are concerns regarding distributional consequences. Consequently, accession to the WTO is not automatic due to the various political economy constraints that are likely to arise as a result of the distributional issues of the WTO. More specifically, acceding countries face both external and internal political economy constraints. While the external political constraints relate to international political power relations and influences, the internal political constraints relate to domestic political affairs and decision-making processes. The focus of this paper will be on the internal political decision-making processes.

Acceding countries should first negotiate agreements and terms with incumbent WTO members, and then then sign and ratify them in their parliaments. In the process of doing so, there may be political economy constraints that are likely to arise from different parties and interest groups. It is these political economy constraints that are likely to shape the decision to integrate to regional and global markets. In view of that, any attempt to understand the political economy constraints that are likely to arise need to look into the country's domestic political structure and system, and examine how it affects the WTO accession process. This research work aims to consider how domestic political aims and structures affect Ethiopian foreign economic policy in the particular case of WTO accession. We think that such analysis offers the opportunity to understand the role of the state and non-state actors involved in the WTO accession decision-making process and the political economy constraints that are likely to arise as a result.

The paper is organized in seven sections including the introduction. Section II provides the country context, highlighting the importance of structural characteristics of the Ethiopian economy and government policy objectives. Section III provides a brief overview of Ethiopia's development strategies and the role of WTO to achieve structural transformation. Sections IV and V highlight Ethiopia's WTO accession processes, negotiation strategies and accession time lines. Section VI discusses the key challenges and prospects of the WTO accession with respect to Ethiopia in particular and developing countries in general. Section VII concludes the paper with key findings and their policy implications.

2. Structural and policy issues in the Ethiopian Economy

Before we discuss how regional and global trade integrations might be useful for structural transformation, it would be helpful to characterize the existing structural and policy issues of the Ethiopian economy. We will especially focus on two issues that shape the economic policy environment of the country: the structural characteristics of the economy and the ruling government's socio-economic objectives. We hope that this will provide a good background to the later discussions by providing information on the structural characteristics of the Ethiopian economy, public policy choices of the government and the need to globally integrate as part of productivity improvement and technology upgrading strategy.

Ethiopia's state-led development strategy has contributed to considerable poverty reduction and progress toward achieving the Millennium Development Goals (MDGs) as envisaged under the government's overarching Growth and Transformation Plan (GTP)[3]. States that assume active roles in productive economic spheres tend to guide their interventions by development policies and strategies. Even though how countries choose their development strategies may be varied, most countries primarily rely on the following two factors when choosing their development strategies:

a) the structural characteristics of the economy and
b) a government's socio-economic objectives.

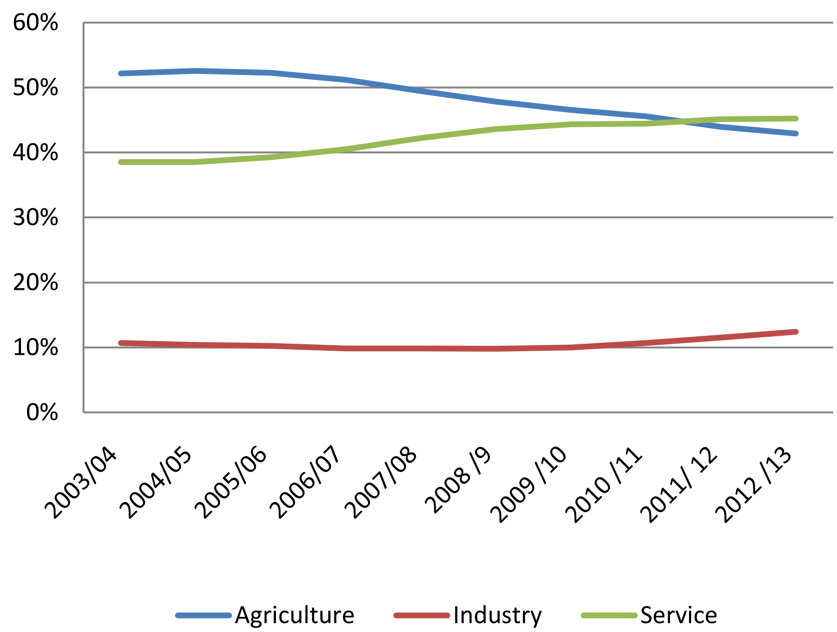
The two factors are interrelated. In fact, the latter can be taken as a corollary of the former. In the next two subsections we provide a brief discussion of the structure of Ethiopia's economy and the government's socioeconomic objectives.

[3] IMF Country Report No. 13/308 (October 2013)

2.1. Structural Characteristics of the Ethiopian Economy

In terms of contributions to GDP and providing employment opportunities, the agricultural sector played the larger role in Ethiopia throughout the country's history. The recent decade has exhibited a slight decline in the role of agriculture and the rise of the service sector's contribution. In fact, the service sector's share in value added exceeded that of the share of agriculture in 2010/2011 (see figures 1 below).

Figure 1: Sectoral Share of GDP (%) (Source: MoFED)



However, in terms of employment and source of livelihood for the vulnerable, agriculture still takes the lead. Another angle to look at the characteristics of a country's economy is through its resource endowments. In this respect, it is evident that labor and land are abundant relative to capital in Ethiopia.

2.2. Government Socio-Economic Objectives

The 1980s and early 1990s were lost decades for Africa and Ethiopia was no exception. Adverse external environments, structural and institutional bottlenecks and policy failures combine to account for the poor performance. Such a poor performance has left millions in poverty. With the collapse of the Soviet bloc, many countries started to rethink their development model moving away from a rigidly defined centrally planned economy to liberalization and pragmatic government intervention in well-targeted economic activities in a way that solves key bottlenecks and market failures. In the case of Ethiopia, economic and political reform started in 1991, in which massive liberalization and privatization reforms took place. With the coming of the current government, economic situations started to get better but the average annual growth was only about 5% until 2003/2004. The growth registered was not sufficient to alleviate the chronic poverty most people in the country experience.

Since 2002 the government has been producing five year plans (SDPRP, PASDEP, and GTP-1) that involve massive government investments in infrastructure, education, health, energy, and safety nets in a bid to achieve the millennium development goals[4]. Given the very poor initial conditions of the country, achieving the millennium development goals requires massive public expenditures. And the Ethiopian government has been prioritizing such expenditures over the last decade.

Following such investments and other structural reforms, Ethiopia has registered a remarkable growth which might be characterized by the following:

[4] Refer to growth and Transformation Plan (2010/11-2014/15) for the goal of the country and http://www.un.org/en/events/pastevents/pdfs/We_The_Peoples.pdf to see what constitutes the millennium development goals.

a) High growth rate

Ethiopia's annual GDP growth rate averaged 10.9 percent between 2003/04 and 2012/13, which is almost twice compared to the regional average of 5.4 percent (MoFED, WB 2013).

b) Pro-poor (inclusive growth)

Reflecting the pro-poor nature of the public investments, the growth registered in the above period has been broad based. For instance, the poverty headcount statistics (i.e., proportion of people living below the poverty line) declined from 45.5 % in 1995/96 to 27.8 in 2011/12 (GTP-APR MoFED, 2011/12).

c) Equitable growth

Ethiopia's growth seems to benefit the majority as it is indicated by its low income inequality, which stands at 0.3.

Now the rationale behind the high and broad based growth is that investments are made carefully in high growth areas and sectors. For example, as depicted in figures 2 and 3 below, Ethiopia's economic growth is driven by services and agriculture on the supply side and public investment on the demand side. While the service sector contributes 47.3 percent of the growth in GDP between 2003/2004 and 2013/2014, 40.8 and 12 percent are attributed to the agricultural and industrial sectors respectively. Likewise, on the demand side, public investment is the major driver of growth reflecting Ethiopia's massive infrastructural development programs.

Figure 2: Average annual contribution to real GDP growth (Source: MoFED)

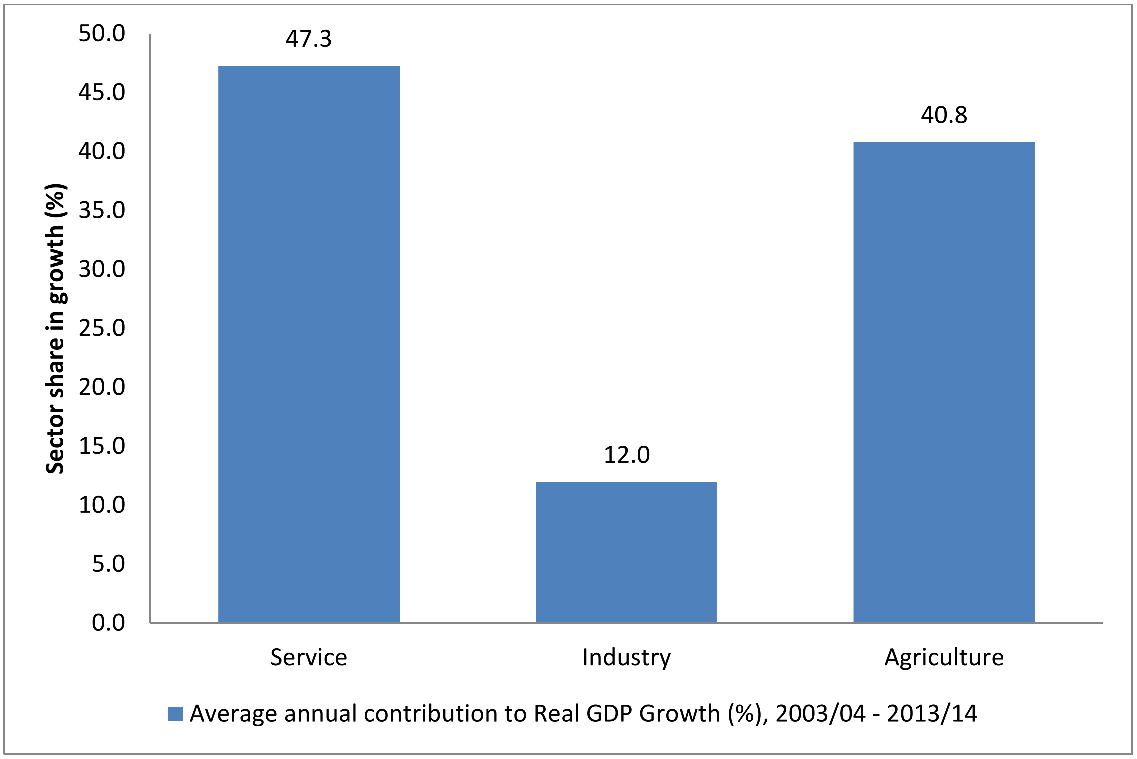
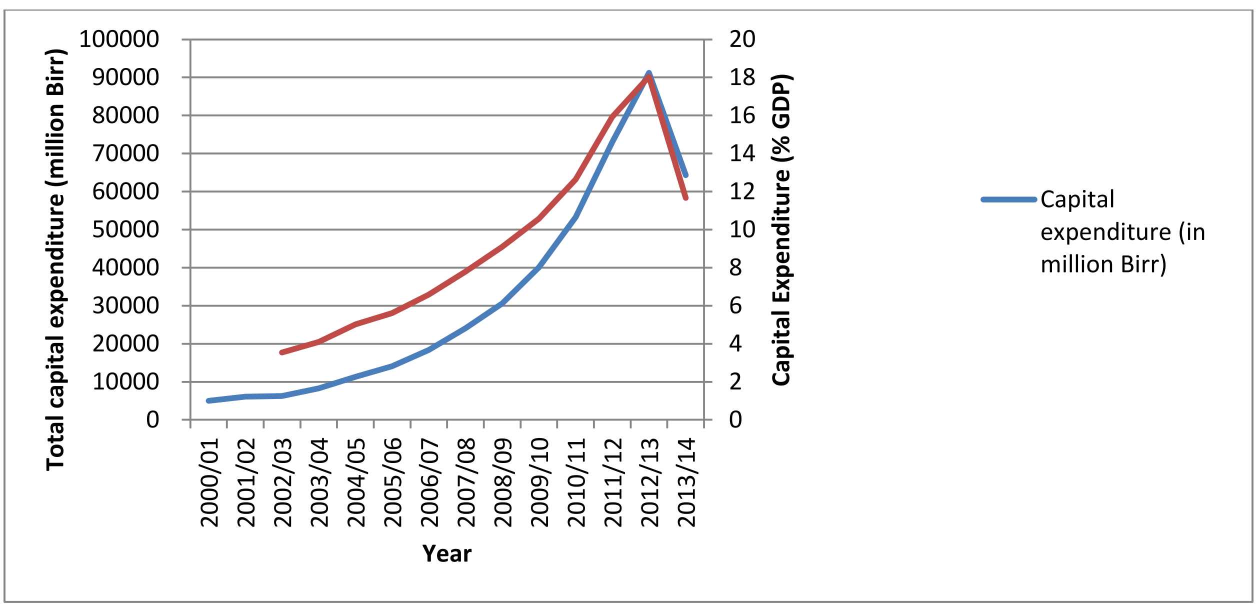


Figure 3: Public investment (in level and as a percentage of GDP)



The channeling of public investments to high growth sectors is in line with the government's socio-economic objective of achieving high and broad-based economic growth that could lift millions of Ethiopians from poverty. However, such sources of growth are not lasting and Ethiopia remains at the early stages of its catch-up process. In other words, although important gains have been made, for example, in growth that could generate employment and reduce poverty, Ethiopia fared little in terms of structural transformation because of failure to achieve productivity improvement (e.g., see World Bank, 2014). To reverse such trends, Ethiopia should pro-actively pursue upgrading its productive capacities and define the next sources of growth by systematically addressing binding constraints that hinder technology upgrading and productivity improvement. And this is where the role of trade integration such as acceding to the WTO comes in. Ethiopia is only gradually integrating into the global economy. In the long run, the WTO serves both as a carrot and stick mechanism to domestic firms. It serves as a carrot because it offers great market opportunities for firms to sell their products globally. On the other hand, it serves as a stick because it forces firms to be globally competitive or die out.

3. WTO Accession and Structural Transformation

Reflecting the structure of the economy and the socio-economic objectives outlined above, the country follows agricultural development led industrialization (ADLI) as its overarching policy framework. The underlying logic of this development strategy is to utilize the forward and backward linkages of the agriculture sector. In terms of forward linkages, improved livelihood of farmers provides excess savings (i.e. capital) to the industrial sector; improved agricultural productivity reduces the price of food and therefore provides cheap labor (low wage) for the industrial sector; improvements in the agricultural sector imply cheaper and higher quality inputs (like skins and hides, cotton, etc) for the industrial sector. In terms of backward linkages the development of the agricultural sector increases the demand for industrial goods (both consumption goods and inputs to production).

Though the supply of cheaper and higher quality inputs and higher demand for industrial goods from the agricultural sector are important for the development of the industrial sector, institutional support that alleviate some market failures and coordination problems are also paramount. To fill this important gap, the Ethiopian government formulated an Industrial Development Strategy (IDS) in 2002.

Initially, both ADLI and IDS focused on promoting the growth of small holder farmers and a few priority export sectors- notably leather, textile, metal, cut-flower and agro-processing industry. However, later in 2005, ADLI broadened its policy scope by adding large-scale commercial farming to its policy menu and in 2009 the IDS was expanded to include not only export-oriented industries but also import-substituting industries. Though the country has registered an impressive growth over the last decade following these development strategies and policies, one must notice that the bulk of the growth resulted from capital accumulation by the public sector. This kind of growth will run in to two problems. First, the amount of debt the public sector can accumulate (or the amount of revenue it can raise for investment) are limited. Second, theory and practice show that resource-driven growth doesn't last long. In other words, productivity growth is the source of long-term sustainable growth and prosperity. Hence, the policy challenge for Ethiopia is to sustain its high growth trajectory and this would certainly require economic restructuring such that the industrial sector becomes the key driver of growth on the supply side and private investment becomes the key growth driver on the demand side.

The important question then is what does it take for the industrial sector to become a growth driver on the supply side and private investment to become a growth driver on the demand side? One means of achieving this is to create an environment whereby export oriented private sector firms face favorable external environment and foreign firms have the confidence to invest in the country (FDI). Joining the WTO will accomplish both things and may be an attractive avenue. However, many would ask the question: why joining WTO while there are other favorable market access possibilities (AGOA, EPA, and DDA)[5]?

4. Joining WTO: The Ethiopian Perspective

The accession process to join WTO involves negotiation between existing and acceding countries. The assumption of the state as a unitary rational actor and the basic theory of negotiation theory embedded in the best alternative to negotiated agreement (Hopmann, 1996) entails that will only become a member if acceding leaves it better off or at least not worse off than it would have been without the agreement. This conception then requires us to identify the potential costs and benefits of joining the WTO and the way they are weighted by the relevant authorities in the country. The potential gains from becoming a member of the WTO can be grouped in to two: Economic and political (Cattaneo and Braga, 2009 and Evenett and Braga, 2005).

Among the economic gains are i) more predictable access to foreign markets that will lead to higher export earnings ii) joining the WTO restricts the range of policy changes the government

[5] AGOA (African growth and opportunity act), EBA (Everything but arms), DDA (Doha Development Agenda)

can make in lots of economic areas. That provides a more predictable policy environment for foreign investors and may lead to increased foreign direct investment. i.e., it solves the problem of time inconsistency.

In terms of political reasons, it is often noticed that transition economies used accession to the WTO to signal their commitment to adhere to a market based economy.

The costs of joining the WTO depend on two factors. First is the degree of reform the state is required to make by existing members compared to what it would have made on its own accord. Second is the time and associated resources it takes to finalize the process.

In terms of both the extent of reform countries are required to make and the length of time the negotiation takes, there is a clear pattern that it has been increasing over time and less favorable than what countries that joined the WTO in its inception received (Evenett and Braga, 2005).

To answer the question raised in the headline-why does Ethiopia want to join the WTO? - We need to make relevant cost and benefits analysis for the country.

Economic Reasons:

Though important for lots of middle income and developed countries, the market access argument does not seem to be a major concern for developing countries in general and Ethiopia in particular. For instance, exporters from Ethiopia have access to a lot of big markets (USA through AGOA, EU through EBA) that they have not fully utilized yet[6]. In addition, a lot of

[6] Karingi, Páez and Degefa (2012), "REPORT ON A SURVEY OF AGOA'S PAST, PRESENT AND FUTURE PROSPECTS," UNECA

WTO members give highly preferential treatment for exports from LDCS through the DDA[7]. Therefore, market access doesn't seem to be a major issue for the country.

As mentioned above, the country has been following ADLI as an overarching policy since 1991. This policy umbrella and its various manifestations such as the three five year plans (SDPRP, PASDEP, and GTP1) reflect a developmental government philosophy. That reflects the government intends to use various instruments such as low custom and excise taxes on imports for export oriented companies and high custom and excise taxes on imports for those sectors the government is trying to encourage import substitution. Other instruments include, tax holidays and preferential and subsidized credit and foreign exchange access to favored sectors. Joining the WTO is likely to put several restrictions on the extent to which the government can utilize these tools of industrial policy.

A juxtaposition of the two points above-not much gain in market access but loss of policy space to use various instruments of industrial policy-leads us to believe that there must be other gains to accession from the view point of the state. The information we gathered from interviewing the country's trade negotiators reveals several points we delve in to below[8].

First, though tariff rates are low through the preferential treatments-AGOA, EPA, and DDA-there are still significant non-tariff barriers imposed on non member countries. Joining the WTO may be helpful in reducing these barriers through negotiation.

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[7] http://www.wto.org/english/thewto_e/minist_e/min01_e/brief_e/brief03_e.htm

[8] We gather the views of the Ethiopian government below from the interview we conducted with Ato Geremew Ayalew and Ato Lesanework Zerfu (Secretariat and vise secretariat of the technical committee respectively).

Second, Ethiopia's current weighted average tariff rate is within the range allowed for least developed countries under the WTO guidelines. More importantly, the feedback from the working party member countries based on the goods sector offer of Ethiopia shows that the weighted average tariff rate is not going to be a sticky point in the negotiation process. Since the country will not be required to change its current tariff structure by much, it will be able to continue using tariff and other trade taxes as instruments of industrial policy.

Third, as Ethiopia's economy continues to grow and, hence, graduate from the LDC category, the demand that will be set by negotiating countries (WTO members) will become more stringent. The experience of China is illustrative example. As Bransetter, 2008 pointed out China faced harsher conditions than other acceding developing countries.

Fourth, joining the WTO can serve as a commitment device. It means that the country has only limited policy space in terms of how much it can vary its tariff rates and other import and export regulations. This commitment provides stability and predictability for external investors and will lead to increased FDI flow. To elaborate on this point further, suppose a foreign firm invests in Ethiopia based on the assumption that the country will continue to receive free access to foreign markets as a result of it being a WTO member. Once sufficient firms are in the domestic market the government may be tempted to impose an export tax. This option may become tempting in several occasions. In the absence of any coordinated retaliatory measures from other member countries and the loss of access to foreign markets embedded in the WTO agreement, the government may exercise the option. Membership in the WTO, by decreasing the attractiveness of the option outlined above, signals to potential investors that the rules of the road will be relatively stable.

Another channel WTO accession may signal better investment environment is through increasing stability of the agreements. Specifically, the preferential arrangements the country enjoys right now and mentioned above are unilateral concessions and can be revoked anytime depending domestic political atmosphere of the granting countries. Therefore, joining the multilateral trading regime with its more predictable arrangements is a preferred condition.

Finally since decisions are made by consensus, new WTO entrants who have special interest in Ethiopia and who Ethiopia considers hostile can put forward demands that can't be practically met or even block Ethiopia from joining WTO. For instance, if hostile countries like Eritrea join, then it can practically prevent Ethiopia from joining in the future. Although this point is theoretically plausible, it is our opinion that it is not of the most important consideration in the decision making process of the country.

5. Ethiopia and its WTO negotiation

So far we have addressed the relation between Ethiopia's development strategy and its implications for the country's desire to join the WTO. In this section, we will delve in to issues regarding the rules and procedures to follow when a country wants to join the WTO, the stages Ethiopia has so far passed through in the accession process, and its decision making process.

5.1 The WTO Accession Process

The rules governing accession to the WTO, stipulated under article XII[9] of the agreement establishing the WTO, state that "Any State or separate customs territory possessing full autonomy in the conduct of its external commercial relations or for the other matters provided for in this Agreement and the Multilateral Trade Agreement may accede to this Agreement, on terms to be agreed between it and the WTO". The vague nature of this rule and the fact that decisions in the WTO are consensus based (among member countries) meant that in practice the terms and conditions of accession are determined by the will of member countries.

The lack of specificity of the rules governing the accession process has led the WTO secretariat to produce practical guidelines that acceding countries and WTO members may follow in their negotiation[10]. We briefly describe these guidelines as follows.

Following a country's communication to the WTO regarding its desire to join the WTO, a communication will be sent to all members. Interested countries will become a member of the working party that will be tasked to negotiate with the acceding country. The acceding country submits a memorandum that describes its trading policies. The working party members will send questions after examining the memorandum. Several rounds of questions and answers will take place. After the questions and answers process reaches a sufficient stage, member countries of the working party and the acceding country will enter in to bilateral negotiations. Finally, the protocol of accession will be adopted by the working party and by the WTO's General Council or Ministerial Conference.

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[9] http://www.worldtradelaw.net/uragreements/wtoagreement.pdf (Agreement establishing the world trade organization)

[10] Refer to WTO document WT/ACC/1 (24 March 1995)

5.2 Ethiopia's negotiation time line

The timeline and documents cited in this section are mainly drawn from WTO's Ethiopian page[11]. The reasons mentioned for time lapses and complications in the negotiation process are gleaned from our interview with Geremew Ayalew and Lesanework Zerfu (Secretariat and vise secretariat of the technical committee respectively). Ethiopia has been a member of the WTO with an observer status since 1997. According to the general guidelines of WTO, an observer country must submit its accession application within five years of becoming an observer. However, Ethiopia has not been able to submit such an application with in the specified time mainly due to the war with Eritrea which diverted the attention of the authorities away from such endeavors. Ethiopia was granted an extension and submitted its application in January, 2003. Following the application, a Working Party was established in February, 2003 with the chairmanship of Mr. N. McMillan. The next phase in the negotiation process is for the applicant country to provide a memorandum detailing the country's trading regime (i.e. its tariff and other regulations). It took Ethiopia about four years, i.e., until January 25, 2007, to produce such memorandum describing all its foreign trade rules and regulations and statistics. The reasons mentioned for the delay are lack of human resources specialized in such areas and lack of information availability (i.e. the information needed was not well organized in one organization/portal.)

After examining the memorandum, questions and replies were conducted between the Working Party and the Ethiopian government between January 2007 and February 2008. Following that

[11] http://www.wto.org/english/thewto_e/acc_e/a1_ethiopia_e.htm

the first Working Party meeting was held on 16 May 2008. The meeting examined the documents supplied until then and ended with second round questions and suggestion that Ethiopia submit its goods and services offer. In the meantime, the Chairperson of the Working Party retired and appointment of the next chairperson took some time. Eventually, H.E. Dr. Steffen Smidt was appointed as chairman in October, 2010. Following the chairman's appointment, the second round meeting of the Working Party took place on 6 May 2011. However, Ethiopia was not able to submit its goods and services sector offer and the meeting was postponed.

Ethiopia submitted its goods sector offer on 17 February 2012 and submitted answers to newer questions on 20 February 2012. To examine the answers and the goods sector offer, a third round meeting of the Working Party was held on 27 March 2012. Following the meeting, two issues were raised by the Working Party. First, the binding tariff in Ethiopia's goods offer was too high. Second, Ethiopia has not submitted its service sector offer.

Interviews made with relevant authorities suggested that Ethiopia was not able to produce its service sector offer due to the complexity of issues involved and lack of man power experienced and skilled in these issues. In the meantime, the death of the late Prime Minister H/E Meles Zenawi and the transition that followed slowed down the process. The latest information regarding the status of the accession process reveals that the authorities have revised the goods sector offer following the third Working Party meeting suggestion. And the service sector offer is also finalized. Both issues are being reviewed by the national string committee.

5.3 Structure of Ethiopia's WTO Accession decision-making process

The constitution of the Federal Democratic republic of Ethiopia article 55(12) says that the Council of Peoples' Representatives ratifies international agreements signed by the executive branch. In other words the power of negotiating international treaties lies with the executive branch (council of ministers). Following this power, the council of ministers has organized Ethiopia's WTO negotiating team, in council of ministers directive 1/2011, as follows:

There is a national string committee comprising of representatives of seven stakeholder government institutions: Ministry of Trade, Ministry of industry, Ministry of foreign affairs, Ministry of Finance and Economic Development, Ethiopian Revenue and Customs Authority, National bank of Ethiopia, and Ethiopian Development research Institute.

The prime minister appoints a chair person and vise chair person for the National string committee. The chair person and vise chair person thus appointed will serve as lead and vise lead negotiators in the country's WTO accession process.

The authorities and duties of this committee are:

- Leads the negotiation of the country with WTO
- Approves appropriate negotiating powers to negotiators.
- Identifies trade related areas that need policy change and sends to approval by the council of ministers.
- Makes decisions on negotiating positions and policy related technical issues raised by the technique committee.
- If a need to formulate a new law or policy during negotiation arises, the committee may

suggest the appropriate federal organ to draft the new law/policy.

- It provides opportunities for the technical committee, negotiation team, etc to get continuing training on WTO rules and regulations.
- It presents an annual report on the status of the WTO negotiation to the prime minister.

The national string committee is responsible to organize a technique committee that is comprised of people with knowledge and experience on the respective areas. The technique committee has four sub groups: Goods sector committee, Service trade committee, Trade related intellectual properties committee, Legal affairs committee.

The technical committee is accountable to the national string committee and will have the following responsibilities:

- Prepares appropriate negotiation documents that are needed for Ethiopia's negotiation for WTO accession.
- Prepares studies regarding the potential effects of the negotiation on the Ethiopian economy, evaluates studies conducted by other parties, and suggests negotiation ideas /positions to the national string committee based on these studies.
- Checks if laws and regulations drafted by government organs are compatible with WTO rules and regulations.
- Supports the national string committee on any technical issues.

6. Challenges and Prospects

As mentioned above, Ethiopia has already submitted its goods sector offer. The Working party has sent a positive feedback and suggested for the Ethiopian government to reduce its tariff rates.

However, the tariff rates offered by Ethiopia's negotiating team are much higher than its current rates. Therefore, there seems enough willingness and space to conclude the goods sector negotiation on both sides. The process of negotiation regarding the service sector, on the other hand, seems to face potential hurdles. To better understand the point we point out two contrasting points.

Looking at the experience of the two[12] least developed countries that were not members of GATT but have managed to join the WTO provides a concrete example of the extent of service sector concessions LDC countries like Ethiopia should expect to make. Nepal[13], which applied in 1995 and joined in 2004, was forced to open 70 services sub-sectors which compares unfavorably to the only two service sub-sectors Bangladesh need to open by virtue of being a founding member. The 70 service sub-sectors were also made to be open up to 80 percent foreign equity participation. Cambodia, which applied in 1994 and joined in 2004, was forced commit for immediate implementation the TRIPS agreement (i.e. 2004) although the agreement stipulates a grace period for LDCs until 2007.More specifically, all the 32 countries that acceded to the WTO since 1995, were forced to open both their finance and telecom sectors for foreign investment.

The current policy of Ethiopia regarding the service sector, especially telecommunications, banking, and insurance, on the other hand, shows is that it is far from what it will end up if the country joins the WTO. For instance, the private sector is allowed to participate in the

[12] Yemen is accepted by the WTO to accede but its parliament has not yet ratified the agreement.

[13] Refer to Adhikari and Dahl (2003)

telecommunication sector only as a joint venture with the government[14]. In addition, only domestic investors are allowed to participate in the Banking and insurance sector of the country[15].

It is clear that the historical pattern of negotiated outcomes regarding the service sector in general and the two subsectors-telecommunications and banking and finance-in particular are in direct clash with the current regulatory environment of Ethiopia, and this is bound to create some friction during the negotiation.

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[14] Refer to Investment Proclamation No. 769/2012

[15] Refer to Investment Incentives and Investment areas reserved for domestic investors council of ministers regulations No. 270/2012

7. Conclusions and implications

Two Competing Reasons for the country for not joining the WTO so far:

Official Position: Lack of Resource

We have highlighted above that the official government position is that joining the WTO has several advantages and there is the desire to join as soon as possible. The reasons mentioned for the delayed process are lack of sufficient trained man power and some disruptive political conditions interfering.

Regarding the former, analytical capacity remains a constraint; in some cases this is a matter of understaffing. However, the more serious constraint is capacity gaps even when government agencies are fully staffed. Generic skills don't simply help. People who are engaged in trade negations and policies must be well-trained. There have been some efforts to alleviate this problem but they have not been that fruitful. For instance, about 62 people were trained on WTO rules and regulations and other negotiation topics by the Ethiopian government out of which 14 were assigned to the Ministry of Trade. However, currently only two of those out of 14 are serving in the Ministry of trade. Such high level of turnover is obviously a manifestation of the general compensation scheme for civil servants that have not adjusted much following the spike in inflation over the last decade.

Regarding the second, the war with Eritrea and the death of the former prime minister are mentioned as vents that took the attention of the government away from the negotiation process.

Other Potential reason: Developmental state ideology

As mentioned above, the parameters for concluding agreements in the goods sector are clear by now and easy to finalize given the policy space available. However, the commitments that Ethiopia may be asked to make regarding the service sector in its accession could be both wide and deep. And, none of the five year plans of the government and/or other policy documents have hinted at the possibility of opening up any of the telecommunications and finance sectors which suggests that there is no plan in any near future to bring the structure of these sectors in line with potential WTO agreement.

This irreconcilable difference suggests that may be ideological commitment to protect these sectors for some time may equally be a plausible explanation for lack of progress in the negotiation.

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