



INTERNATIONAL JOURNAL OF MODERN MANAGEMENT & FORESIGHT

JOURNAL HOMEPAGE: IJMMF.COM ISSN: 2204-0072.

VOL. 1, ISSUE 1, PUBLISHED ONLINE on JANUARY 2014, pp.16-23.

BARRIERS AND CONSEQUENCES OF IRAN JOINING WTO

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ABSTRACT

In global convergence and cooperation, one of the most important sections has been economics. The international organizations like Money International Fund and WTO as specialized organization in Economics arena, have taken policies completely in context of globalization of economic. In this regard, WTO was established as most important organization in international economic section after the Second World War. Today, the ever increasing need for regional and global cooperation and convergence caused acceleration in membership trend in international organizations. In process for joining the international economic, what is important is effective and active presence in economic and international trade arenas. Our country that is seeking presence in the international arena and global markets has no choice except active partnership and membership in the regional and international organizations like WTO. One of these important requirements, is quality and quantity increase of domestic productions with export orientation. This article intends to reply the following questions: What are the existing barriers and limitations for full membership of Iran in WTO? What are the positive and negative effects of accession to WTO? What are the principle solutions for confronting the negative effects of Iranian membership in WTO? And finally the requirements of our country are pointed out, for accession to WTO and the required arrangements for minimizing the probable risks of membership in this organization

KEY WORDS: Membership, Iran, World Trade Organization, Cooperation, Agreement

1. INTRODUCTION

The First World War created many problems for the European nations including payment balance shortage, reduction of money value and expanded unemployment, all causing problems in economic and trade ties between the countries which were notably in form of bilateral contracts. The governments by codification of some economic policies like increase import tariffs, faced international trade to some limitations. By out breaking the Second World War and necessity for reconstruction of the war destructions, the theory for regulating the trade ties based on competitive atmosphere, reinforced more. The main trade countries agreed that International Trade Organization (ITO) together with WB and IMF came into existence. But due to certain problems this organization never came into existence. Unsuccessful effort for establishment of ITO after the Second World War led to establishment of GATT which was negotiated as a tool for facilitating the international trade in 1947 and it was executed as of 1948. Due to non-establishment of ITO, GATT had weak organization in form of secretariat. WTO formed in 1995, in fact it was replacing GATT. WTO is an international organization, regulating the world trade rules and settling the disputes among the members. Members of WTO are countries who have signed the letter of agreements of this organization (about 30 agreements). It is based and located in Genève, Switzerland. WTO was formed through certain commercial negotiations rounds under GATT and most of these negotiations were about decrease of customs tariff. Uruguay round of negotiations during 1986-1994 was the most important ones led to establishment of WTO. GATT and WTO follow the goals and targets including promotion of life level, providing complete employment among the member countries, development of production and business, achievement of sustainable development with

optimized operation of world sources, preserving the environment and increasing the share of developing countries and less developed countries from growth of international trade. GATT (1947) used to engage in just goods trade while WTO engaged in two other fields i.e. services and intellectual property rights. WTO enjoys fundamental principles including principle of nondiscrimination containing Most Favored Nation, principle of free trade, decrease of tariffs, commercial transparency and fair business principle. Membership in WTO would require accepting numerous principles and treaties accepted by the member countries. These stages include membership application, acceptance of application (accession as observer member), codification of report of state commercial policies, formation of accession work group and final unilateral and multilateral negotiations for determining the membership conditions and attaining the agreement for accession. At present WTO has 159 members (table No.2), (close to 123 countries who participated in Uruguay round, now are its permanent members) 27 communities of European Union are presenting as representatives of the EU. The members must be in relation with the other countries in interaction with other member countries and membership requirement in the organization does not confirm the fact that the countries can be self-sufficient in their territory and/or damage independency of the other countries. Iran has no choice but to enter the WTO. Non membership in WTO shall face our country to isolation in international economics. The issue of profit or loss upon accession to WTO would have no effect on requirement of accession of Iran to WTO. The members of the organization have more than 90% of the global trade at their hands. WTO would codify heavy importation tariffs for the non-member countries. Our country submitted its membership application to WTO secretariat as of 1996 and such application face to opposition of U.S.A repeatedly. The opposition of USA was political more and caused non acceptance of Iran's accession. Up to when on May.26.2005 the accession application of Iran which was submitted 9 years ago on 19 July 1996, was considered for the 22nd time and in contrary to the previous meetings of general assembly, without declaration of U.S.A opposition, the membership application of Iran was admitted by the members and as such Iran started full membership trend as observer member. Acceptance of Iran's membership as observer member (Table No.3) in WTO is not prompt membership of Iran in WTO. Based on the agreements of WTO, the countries must gradually eliminate the tariffs. One of the problems that Iran and the oil-producing countries are facing is that at present oil is out of WTO's accord and these agreements do not include the oil products. For this reason importing the export goods of WTO member of Iran have been subject to tariff elimination, but the oil import of the other countries from our country are not subject to tariff elimination or reduction. With consideration to the fact that oil composes a great portion of our country's export, it will be detrimental for Iran. On the other hand, the tariffs imposed on Iranian export goods will cause that Iranian goods are not capable to compete with the goods of other countries. The aim of codification of this article is study of necessity and significance of the Iran membership in the WTO. While identifying and discussing the limitations, effects and principle solutions in context of full membership of Iran.

Today with consideration to the fact that most countries of the world specially the developing ones are trying for membership in WTO, also the accession process to WTO is a difficult, complex and long process. The membership of Iran in WTO and its effects on different sections (industry, services, agriculture,) is very important. Considering the fact that about 90% of the international trade are conducted by the members of WTO, if any country wants to have a portion in such trade and business, it must be member of this organization, and coordinate its own trade rules and regulations with the rules of this organization and our country which has not membership of this organization yet, must choose between isolation from international economic and trade and membership in this organization and accepting its terms and conditions. Now this question is raised what is the profits of accession to WTO for Iran and what is the necessity and significance for such accession. If Iran does not access to WTO that is main agent of free trade in international level, will not be able to have export competition and effective presence in the global markets, on the other hand Iranian membership may cause demolishing many national and protected industries by the government who are not capable for competition in the global markets and this would effect on our country very much, Iranian economy is among those one inevitable led to global economy, Iranian membership in WTO would need precise planning and study and taking advantage of the successful experiences of the other countries (specially the economics similar to Iran's) in process for accession to WTO.

Also the policy of trace and production liberalization must be followed widely and much considerable changes to be performed in economic rules and regulations. At present the international economic organizations

especially WTO have considerable role in promotion of economic globalization, this organization directs the economics of the countries toward global economy and presence in the international commerce with binding recommendations. With consideration to membership of most countries in this organization and its effect on international level, the Iran's stand has been strengthened in regional and international market and the bargaining and competitive power would be increased. Also the membership shall cause more confidence of the investors (including domestic and foreign) and reduction of investment risk. By membership in WTO the private sector shall be active more and the grounds for economic and information rents and the monopolies shall be removed by some extent also the economic sanctions and economic isolation shall be removed. The non-oil export shall be developed and productivity and efficiency of sources (human and nature) shall be increased and Iran's portion shall be increased in the world trade. While the job and employment opportunities shall be increased. The other important issues gained by us as to accession to WTO would include prevention from escape of capital, increase of international convergence, prosperity of private sector (privatization), increasing the efficiency of economic rules and regulations (money, financial and foreign currency policies) increasing the foreign currency incomes of the government, decrease of unemployment, decreasing the amount of interference by the government in economic, and finally enforcement of presence in the international organizations and unions. Accession of Iran can be an opportunity and also threat for the national economy, if such accession is based on study and planning and enforcement of economic substructures in different sections, it shall be an opportunity for the country but if it is done without planning and study of its probable sides, absolutely our economy and national profit shall face to threat. With consideration to the aforesaid issues, membership in WTO is necessary and inevitable for Iran and it can take advantage of such opportunity with precise planning.

2. LITERATURE REVIEW

National Studies

Bidabad (2005) in his book under title of World Trade Organization and Iran's accession (pre-requisites for reforming the state economic structure), initially dealt with ways and procedure of WTO in 1995 in fact substituting the GATT 1947, pointed out the most important round of negotiations known as Uruguay round which led to formation of WTO. The first round of negotiations was basically for decreasing the tariffs but the next negotiations covered other fields like non-tariff evidence and anti-dumping rules. Then the writer presented theories on international trade (Mercantilism Theory), Adam Smith's theory of absolute advantage-Ricardo's theory of comparative advantage- theory of opportunity cost).he dealt with historical trend of WTO after GATT. Also he considered the objectives structure and agreements of WTO. In continuation in the second chapter he considered the general requirements of Iran in accession process to WTO. The writer by pointing out the fundamental rules, export and import and the customs and foreign currency rules and tax rules, expressed general requirements of Iran as to GATT, market access, agriculture agreement and rules of trade investment. Then he compared the organization's agreements with the Iranian conditions after general review of requirements due to Iran's accession. The writer has pointed out the evolutions which must be occurred in economic and legal structure of Iran for membership in the WTO.

The last round of negotiations was Uruguay round led to establishment of WTO, it is pointed out that GATT dealt with goods commerce majorly but WTO contains business and trade in fields of services, innovations, initiations and intellectual products. In continuation, the member of GATT were pointed out including the principal members, observer, members independent from colonialism and the members having conditional membership. In continuation it is pointed out the principles of WTO such as non-discriminations and stages for accession to WTO and the fact that the accession process is long and several stages each stage has its own special requirement, the writer mentioned Iranian's membership and the fact that now Iran has been accepted as observe member. In continuation he preceded the generalities of requirements in accession procedure including legal grounds, economic grounds, and capability of agencies in supplying the products with high competitive power. Then requirement for Iran's accession as to establishment agreements, agricultural, hygienic, textile, clothing, and finally the viewpoints of those pro and con of Iran's membership and the evidence of each group(Translated, 2002).

Dadgar & Meidani(2004)in an article under title of consequences and approaches for entry of Iran to the global arena and WTO initially pointed out the concept of globalization as fundamental index for the human being in

the present century and then preceded procedure of Iran as observer member. Initially he dealt with questions like which direction is led through Iran globalization? What is the required time for entry of Iran to the global arena? What are the approaches for confronting the initial shocks, recession, unemployment, preserving the domestic industries, imported culture) what are the international policies? Then he preceded the word globalization having special concept in social, economic and cultural frame and context. The concepts like global society, world system, internationalization and globalism. In continuation he pointed out the advantages and losses of Iran membership and the opportunities and threats existing thereto. Advantages and opportunities including connection to global economy, achievement of global market, increasing the quality of domestic products, manufacturing the goods being able to compete in the global market and to follow up and recognition of relative advantages in different parts. Finally he concluded that for logical and principle confrontation with globalization in Iran we can proceed cases including appropriate approach with the political and cultural conflicts with consideration to internal substructures in different education areas, political unity consensus must be made instead of political conflict and argument with the world, by using the elites and academic persons in the executive posts and capacities, suitable interaction and relation with the world. And finally the country trade gates must not opened once and to take all the customs tariffs and levies. Liberalization of the market must be made periodically and gradually and the state industrial management must determine a 10-15 year period for protecting the industries. On the other hand one united strategy for research and development must be considered.

Hossein Foroughinia (2005) in an article under title of economic and social consequences of Iran membership in WTO, after an introduction of globalization and economic he proceeded creating the international organization, establishment of GATT and then establishment of WTO (1995). Then he pointed out the principles and objectives of WTO, goals and objectives such as increasing the life level of citizens, providing the possibility for full employment, continuous increase of incomes, increasing the amount of application, full operation of world sources and the fact that the main goal of WTO is in fact establishment of one free international economic system in where interference of the government in commercial affairs is at the minimum possible extend. Then he dealt with the principles of this organization including nondiscrimination, national treatment, advisory principle, prohibition for establishment of quantity limitation and decreasing the customs levies, in continuation, he pointed out the organs of this organization including ministerial conference, general assembly, and dispute settlement board, board for study of commercial policy, specialized councils, specialized committees and secretariat. Then he dealt with Iran membership and its procedure in WTO and the fact that Iran membership in WTO is an inevitable binding just its first phase has been met. And the next success would require creation of economic grounds and providing the terms and conditions for facilitating the full membership stages of Iran, has decisive and fateful role. Finally he concluded that attention to the evolutions of international economy, there is no way for survival in the global arena except accession to WTO. Certainly by adopting the suitable trade policies like inflation control, creation of economic, political and social security, correction/ reform of taxation rules, reform of Labor Law and deletion of unemployment, creation of motivation in private sector and demolishing the government monopolies that these cases form the base for increasing the production and efficiency, making Iran ready for entry to WTO.

Foreign Studies

In report of Maison des associations in Genève under title of WTO ready for human rights and promotion of people diplomacy in 2004 three subjects (trade, human rights, and fair economy) were considered. Then the history for creation and establishment of WTO in 1995 was pointed out and the fact that the organization is replacing the GATT. GATT established in 1947 was one of the organizations established after Second World War for the international economy. It is also pointed out in this report that United Nations, International Money and Bank Fund the world bank are among the other organizations established in 1940s at the same time the world leaders believed that the established international organizations will be able to reply the economic and social crisis in 1930s. It has been pointed out that first WTO is an organization with membership of countries and international cooperation, secondly it includes series of agreements including agreement for establishment of WTO, agricultural agreement, agreement for health actions, cloth and textiles agreement, agreement for rules of trade investment, in continuation the work procedure of WTO and its mechanism are dealt. By membership in WTO, the countries agree for direction of trade and economic ties by increasing the life standards, guaranty of

full employment and an amount of stable and high growth with actual revenues of these countries. Then the probable discriminative parameters of trade liberalization are pointed out. Totally concentration of economies mainstream must be changed in context of parameters such as social needs, cultural values, human respect and dignity and the reserves of the countries to be changed. The different economies must consider different effects of trade and commercial rules on different groups.

Probable Effects of Iran membership in WTO

The existing barriers and limitations for membership of Iran in WTO:

- Weakness in substructures and economic infrastructures
- Unstable and changing rules and troublesome permissions
- Governmental economy and monopolies
- Weak technology and know-how
- Low competitive power of domestic industries in the world arena
- Lack of coordination between deciders and responsible in charges and weakness in management
- Opposition of some countries such as U.S.A and political and economic sanctions

Negative effects of membership in WTO:

- Irregular increase of import to country which can have negative effect on the economy of country with consideration to shortage of the Iranian foreign currency sources.
- With consideration to the fact that the major part of our country's export is oil and some traditional agricultural goods with low efficiency, therefore the profit of Iran as to membership advantages in WTO will be limited due to having no strong presence in the international competition, therefore the trade balance will be probably negative.
- It is expected that the consumption pattern in the society to be changed in context of more consumption of the foreign goods which shall have negative effect on production and employment.
- Regarding the probable effect including import increase on one hand and limitation of non-oil exportation on the other hand and as a result negative trade balance, the payment balance shall be negative too.
- Based on WTO agreements, the countries are obliged to decrease the limitations imposed for investment, therefore in case of Iran membership in WTO, such limitations shall include Iran as well.
- Due to impossible competition in the global markets, the domestic industries shall face problems.
- The other short term profit of other countries member of the organization including European countries from Iran's membership, will be much more than our profits. By deletion of customs tariffs and legal barriers of goods importation, volume of Europe export to our country shall be increased so much.

Certainly the aforesaid issues would not mean negation of accession of Iran to WTO, but the suitable grounds and sufficient information and safe grounds get ready for entry to WTO. Because accession to WTO shall have profits and advantages for Iran which must not be neglected.

Positive effects of membership in WTO

- Possibility for more absorption of foreign investment directly or indirectly
- Increase of financial and credit facilities
- Providing the grounds for purchasing the advanced and updated technology and equipment
- Removing the barriers as to marketing for the products like pistachio, rug,.... Which are among our export item.

Variation of non-oil export and exit from mono-product economy is one of the important approaches for decreasing the negative effects of Iran accession to WTO which requires enforcement of production structure

and optimized use of production factors for increasing efficiency, productivity, quality of products and possibility for better competition in global trade.

Solutions and principle approaches for confronting the negative effects of Iran accession to WTO

The required strategies and approaches for accession of Iran to WTO which must be followed up seriously by the responsible officials are as follows:

- Revision in export policies and codification of export strategies with attitude of development of non-oil export and variation of state export basket
- Creation of suitable structures specially the economic substructures required for entry to international economy including the capital markets, suitable transport system, communication and information system
- Enforcement of state infrastructures for increasing the efficient and competitive power
- Fundamental structural changes for coordination with the current changes in the global markets
- Observing the fundamentals and conditions enforcing the state compatibility power in different economic, technological, human resources, Dimensions. It must be noted that troublesome and bureaucratic rules and regulations on economic activities, high inflation, decreasing attraction of foreign capitals, lack of modern and complex technologies, shortage of skilled and specialized human resources, complex bureaucracy and inefficient office system and something like these would led to reduction of competitive power of Iranian agencies in the global markets.
- Attraction of new technologies for increasing the competition power in manufacturing and services agencies
- Improvement of production structure
- Precise planning and study for performing the economic reforms including privatization and liberalization
- Stabilization of money and foreign currency policies
- Stabilization of financial policies specially improvement of taxation system
- Gradual reduction of government interference and incumbency of government in economic section through assignment of economic affairs to the private sector
- Planned and gradual disconnection of government' protection of economic activities
- Export of goods with more added value
- Training and education of specialized human resources for obtaining relative advantage in intellectual and human capitals
- Concentration on production and export of high value added exports instead of raw materials and goods
- Creation of variety in export of products for releasing from mono-product economy and confronting great shock which is result of deletion of crude oil from state export basket
- Investment and development of new and profitable competitive industries
- Development of services incomes through expansion of commercial, services, tourism industries,
- Attraction of required capitals specially attention to direct foreign investment
- Improvement of state economic indices including unemployment rate and inflation rate,....
- Continuous and effective relation and negotiation with the international economic organization including world banks and money international fund and other economic unions and organizations.
- Negotiation and exchange of view for entry of oil in the WTO negotiations as a commodity which compose major part of our state export.

At the end we point out to requirements of our country for accession to WTO and due arrangements for minimizing the probable risks such membership. For this some grounds must be arranged and basic reforms to be fulfilled in different parts of Iran especially in economic section which are summarized as follows:

- Economic due arrangements and grounds through attention to the relative advantages in the different economic sectors

- Legal due arrangements and ground through conformity of state rules like Constitution, foreign investment, insurance, customs and tax with WTO rules.
- Enabling the manufacturing agencies in supplying goods with high quality and suitable and less cost price
- Increasing the export portion of industrial goods and higher value added goods
- Creation of political stability and economic security condition
- Creation of coordination in the money, financial and foreign currency policies
- Reforms of state customs
- Creation of free zones specially commercial and economic
- Continuous partnership in negotiations of WTO by performing the studies and precise economic and commercial studies by the relevant experts and specialists
- To consider value for the specialization and reforms of existing systems based on science and knowledge orientation

3.CONCLUSION

At the present time that our country has no choice except to have effective presence in international competition and international commerce, significance and necessity for membership in WTO is inevitable. Access to WTO must be followed up seriously which requires precise short-term, mid-term and long-term planning. Also while creating evolution in structure of state foreign trade, the appropriate economic and social grounds must be provided and to increase the completion potential in export of goods and services. Therefore in context of membership in the WTO attention to the following points seems mandatory in order that the probable risk of such membership converted to opportunity and national profit.

- Performing the basic reforms and changes in different economic sectors
- Using the day technology and know-how in manufacturing the products and services for increasing the competitive power
- Creation of transparency and stabilization in economic and commercial rules and conformity of these rules with the rules of WTO
- Protection of economic efficient and generator agencies and establishments having power for competition in the global economy arena
- Increasing the quality and quantity of manufacturing goods and services and optimized allocation of resources for manufacturing and exporting the non-oil goods with high added value
- Assignment of different economy sectors to the private sector by direction and supervision of government (releasing the economic incumbency by the government)
- Enforcement regional and international cooperation for more economic and commercial convergence and more partnership in the economy international system
- Creation of economic, political and social safety and stabilization for attraction of foreign and domestic investors
- Attention to the relative advantages of country in different manufacturing, services and agricultural sectors
- Effort for removing rules and regulations of Iran which are in contrary to rules of WTO and removing the legal barriers in front of Iran's membership in WTO.

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