

Notes on Other Things the WTO Might be Doing (besides liberalizing trade)

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I've argued in a series of papers that the GATT/WTO hasn't had much effect on either trade or trade policy (these papers and other relevant materials are available at <http://faculty.haas.berkeley.edu/arose/RecRes.htm#GATTWTO>). Still, perhaps the WTO has other ambitions. One would like to examine the possible effects of GATT/WTO membership on other international economic phenomena. At the top of the list are: capital flows, FDI, and services. In this brief memo I set out the issues associated with each.

Capital Flows

- Bilateral capital flow data exist for flows between the US and the ROW. The website is www.ustreas.gov/tic/
- Still, there are serious problems.
 1. The data set is available from 1988 onwards, and only for the US vis-à-vis the rest of the world. During this period of time, there were data for few countries that switched GATT/WTO status, and few outsiders.
 - Outsiders: Bahamas, Bermuda (?), Lebanon, Liberia, Russia, Syria
 - Switchers: Bulgaria, Ecuador, Guatemala, Panama, Venezuela
 - After 1999 or questionable: China, Taiwan, Czech Rep (?)
 2. There is no good bilateral model of capital flows
 3. The WTO doesn't say that it tries to liberalize capital flows

FDI

- Bilateral FDI data is available from the OECD from 1985-1999.
 - The gravity model probably works OK for FDI
 - The WTO doesn't say that it tries to liberalize capital flows. That may not be a serious problem, since some FDI is either a substitute for or a complement to trade in practice.
- Problems
 1. All the FDI source countries are continuous GATT/WTO members. Still, there are a few outsiders/switchers in the host/recipients
 - Switchers: Mexico (barely outside in the sample since it joined in 1986), Morocco (barely), Costa Rica, Panama, Venezuela, UAE, Hong Kong (barely)
 - Outsiders: Algeria, Libya, Saudi Arabia, Iran
- Results
 - Membership has no economically or statistically significant effect, if you use a standard gravity model estimated with standard panel data techniques. Results are in Table 1 below.

Table 1: Determinants of Bilateral FDI Flows

	Fixed Effects	Random Effects
Both in GATT/WTO	-.01 (.16)	.04 (.15)
GSP	.54 (.78)	-.11 (.24)
Regional FTA	.16 (.19)	.54 (.19)
Log Distance		.17 (.14)
Log product Real GDP	-2.79 (.29)	.43 (.07)
Log product Real GDP p/c	2.83 (.30)	-.17 (.08)
Currency Union		5.04 (1.57)
Common Language		.74 (.29)
Land Border		2.38 (.94)
Number Landlocked		-.37 (.24)
Number Islands		.77 (.22)
Log product Land Area		-.03 (.05)
Currently Colonized	.43 (.47)	.55 (.49)
Ever Colony		.90 (.47)
R²	.37	.33

Regressand: log FDI. Intercepts and year controls not reported. 2663 observations in 308 country-pairs.

Services

- Bilateral service trade data exist, gathered by the OECD. The website is <http://www.oecd.org/EN/document/0,,EN-document-423-nodirectorate-no-1-32974-24,00.html>
- Still, there are problems.
 1. The data set is available for two years only, 1998-99 and 1999-2000.
 2. The data exist for bilateral flows between the OECD (always members) and selected other countries. Still, some are not WTO members.
- Results
 - At least one country is always a WTO member (since it's OECD data and all OECD members are in the WTO now). But service trade with non-WTO members is higher with a coefficient of .38 (.18), barely significant. No sign that WTO membership encourages trade in services.

Table 2: Determinants of Bilateral Service Flows

One in GATT/WTO	.38 (.18)
GSP	.30 (.13)
Regional FTA	-.16 (.15)
Log Distance	-1.01 (.08)
Log product Real GDP	.96 (.04)
Log product Real GDP p/c	.31 (.05)
Common Language	.99 (.19)
Land Border	.02 (.25)
Number Landlocked	-.00 (.13)
Number Islands	.20 (.13)
Log product Land Area	-.01 (.03)
Ever Colony	.67 (.37)
R²	.80

Regressand: log bilateral service trade (exports plus imports). Intercepts and year controls not reported.
OLS estimation. 1053 observations.