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Country Policy Reform?**

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Policy Anchors: Do Free Trade Agreements And WTO Accessions Serve As Vehicles For Developing-Country Policy Reform?

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COMMENTS WELCOME

ABSTRACT: It is sometimes claimed that free trade agreements (FTAs) between large countries and smaller developing countries serve as “policy anchors” by acting as a mechanism for the smaller developing country to make credible commitments to policy reform which they might not otherwise make. Such policy commitments are likely to take place while the agreement is being negotiated. This paper presents some stylized facts about recent U.S. FTAs and recent accessions to the WTO which may be relevant in assessing the claim that either process acts as a “policy anchor”. These include the following: (1) U.S. FTAs are generally negotiated much more quickly than WTO accessions. (2) The length of time it takes to negotiate an FTA or accession varies widely. Agreements with larger economies and economies with weaker initial policies appear to take longer. (3) Recent U.S. FTA partners begin negotiations with a stronger policy environment than recent WTO accession candidates, indicating a selectivity phenomenon. (4) An analysis using the World Bank’s “Governance Matters” indicators shows no apparent relationship between the period of negotiation or engagement and improved governance. The trade component of the Heritage Foundation’s *Index of Economic Freedom* does show a consistent pattern of improvement, but other sub-indicators are likely to deteriorate. (5) Particular experiences are likely to be highly country-specific.

The views expressed in this paper are solely those of the author and not those of the U.S. International Trade Commission or any of its Commissioners. Contact information: Phone 1-202-205-3241 Fax 1-202-205-2340 email Michael.Ferrantino@usitc.gov. The valuable assistance of Kris Nordstrom, Edward Wilson, and Nannette Christ with the policy data and its presentation are gratefully acknowledged, as are comments by Robert Feinberg, Bill Powers, Richard Pomfret, and Jose Signoret, and audiences at American University and at the Association for Comparative Economic Studies in Boston. Nonetheless, the state of the current draft should be attributed solely to the author’s present condition of perplexity, and not to any of the above-named individuals or groups.

I. INTRODUCTION

A. Hypothesis

The proliferation of bilateral and plurilateral free trade agreements (FTAs¹) in recent years has been widely noted. The WTO has received notifications of 167 FTAs which entered into force from the beginning of 1990 through July 1, 2005², and there may be others. There are also a wide variety of agreements which provide for some integration between members but do not achieve complete free trade in merchandise. Some of these FTAs pair a large developed-country partner with a developing-country partner. Beginning in 2000, the United States has initiated FTA negotiations with 23 different countries in 12 separate agreements, and concluded negotiations with 13 of those countries. Similarly, in 2004 10 countries acceded to the European Union, expanding its membership to 25. Another eight countries are in the queue for EU membership³, and the EU has a wide variety of additional agreements, including FTAs with Chile, Mexico, and South Africa and various sorts of arrangements with its regional neighbors under the umbrellas of the “European Neighbourhood Policy” and “Euro-Mediterranean Partnership.”

These phenomena suggest several questions for investigation:

¹ The term “free trade agreement” (FTA) is here used loosely to refer to a wide variety of agreements, in preference to “regional trade agreement” (RTA) simply because members of RTAs are not always in geographical proximity. The issue of which of the agreements designated as FTAs succeed in covering “substantially all trade” in the sense of GATT Article XXIV is set aside for the purposes of the present discussion.

² See http://www.wto.org/english/tratop_e/region_e/region_e.htm for several presentations on FTAs (called in WTO nomenclature “regional trade agreements” or RTAs) notified to the WTO.

³ Of these, Bulgaria and Romania are scheduled to accede to the EU as of January 2007; Croatia and Turkey are candidates for accession; and Albania, Bosnia/Herzegovina, Macedonia, and Serbia/Montenegro are potential candidates for accession under the Stabilization and Association process. The Serbian region of Kosovo is treated separately under this process.

(1) Is there evidence associating FTAs with policy reform, over and above preferential tariff reduction?

Such FTAs usually contain provisions in a wide variety of areas other than tariff reduction, such as investment policy, intellectual property, health and safety regulation, competition policy, and so on. As a result, a developing country which implements an FTA with a large developed partner is required to make commitments with respect to the operations of a large part of its government apparatus. Some of these commitments may represent improvements in the quality and transparency of governance. These commitments might not be as easy to achieve within the domestic political processes of developing countries acting autonomously, but may become feasible as the result of a commitment to a large outside partner. Deeper integration with a large developed partner may thus serve as an “anchor” or “lock-in mechanism” for domestic reforms (Bilal (2003), Crawford and Fiorentino (2005)). One incentive for such commitments is the possibility that foreign direct investment (FDI) may be attracted thereby (Schiff and Winters (2003), chapter 4).

(2) Are there important differences between FTAs and WTO accessions as vehicles for policy reform?

This paper examines some broad stylized facts for recent U.S. FTAs, those from 2000 onward, and, for comparison, recent WTO accessions and accession negotiations from the period since the establishment of the WTO in January 2005. WTO accessions are like FTA negotiations in that they require new Members to make commitments in a wide range of policy areas, though not as potentially wide as FTA negotiations. One hypothesis to be examined is the possibility that FTAs with large developed partners provide an environment for developing countries to make deeper and more extensive policy commitments than WTO accessions. If this could be

established, it would serve as a significant counterargument to the neoclassical objection to preferential FTAs, namely that they cause welfare-reducing trade diversion.⁴

(3) Is the timing of FTA or accession negotiations important for reform?

The focus of this paper will be on a particular hypothesis, which can be stated as follows: The period during which negotiations take place is the place to look for policy linkages. This will typically be an extended period of time before the agreement enters into force. Such an approach contrasts with analyses which look for effects of an agreement turning on the date of entry into force or analyses which exploit the gradual phase-in of tariff commitments to look for trade effects.⁵ The reason for adopting this approach is that during the period of negotiation, it is possible for the “anchoring” institution (the U.S., EU, or WTO Working Party) to delay or withhold the commercial benefits of the agreement in exchange for greater commitments on the part of the partner or acceding country. In order for an agreement to “anchor” commitments, the commitments must be made in some form before the agreement is concluded. The history of negotiations might be expected to yield up a paper trail of such commitments. This hypothesis is examined by constructing data on timelines associated with recent U.S. FTAs and WTO accessions, and by looking at changes in the behavior of governance indicators during the period of negotiation. For this analysis, the various subcomponents of the World Bank’s “Governance Matters IV” indicators are used (Kaufmann, Kraay, and Mastruzzi (2005)), as well as the aggregate score and some subcomponents of the Heritage Foundation’s *Index of Economic Freedom*. (Heritage Foundation (2006)).

⁴ For a summary of the analytics of trade diversion following on from the contribution of Viner (1950), see Baldwin and Venables (1995). For a compilation of evidence on the potential costs of trade diversion, see Schiff and Winters (2003), pp. 210-221. For analysis of the competing propositions that preferential agreements might be either “stepping stones” or “stumbling blocks” to multilateral free trade, see Levy (1997), Krishna (1998), and Andriamananjara (2000).

⁵ See Rose (2004) for the WTO, and the various studies reviewed in USITC (2003), pp. 93-100, for U.S. FTAs.

Evaluation of the above hypotheses is complicated by several factors. One large one is the fact that FTA partners may be chosen with a good deal more selectivity than WTO accession candidates. The WTO aims to be a global organization, and is open to all comers. Those countries which have become members recently, or are not yet members, consist very largely of former Communist economies, Middle Eastern countries, and small islands. These may have, as a group, weaker governance than the world as a whole. A country with relatively few FTAs in effect, such as the United States, has a great deal more choice in potential partners. It may be easier to do successful deals with partners with relatively good governance. Analysis of both the World Bank and Heritage Foundation indicators bears out this difference. The second, non-trivial factor is that the governance indicators used here may not be as strong as would be desired for such an analysis. The findings presented may thus reveal as much about the way the governance indicators are constructed as about the effects of the negotiations.

The preliminary analysis offered here contains no strong and general conclusions about the tendencies of FTAs to lead to policy reform in developing countries. The results from the “Governance Matters” indicators show relatively little evidence of improved policies associated with the period of engagement, while some of the Heritage Foundation indicators are more likely to show improvement. The relationship between FTA negotiations (or WTO accession) and reform is likely to be very country-specific. Different partner or acceding countries are likely to differ in their *ex ante* willingness to reform. The nature and extent of commercial interests, both export-promoting and import-competing (“offensive” and “defensive” in the vocabulary of negotiators) is likely to vary from case to case, which can potentially affect the value that both parties place on “deeper integration” commitments. Also, it turns out that some of the commitments associated with the negotiation process may not be embodied in the text of an FTA agreement but are in the nature of “side” commitments, which makes the process of generating a history of such commitments fairly challenging. These two problems taken together lead to a significant analytical problem of endogeneity. An ongoing process of engagement between a

developing country and an external anchor is likely to be influenced both by domestic drivers for policy change and by the expectations of the anchoring partner, so that identifying whether any given reform is “caused” either by the FTA negotiations or by the domestic reform process is problematic and perhaps not useful.

Some useful stylized facts do emerge from the preliminary analysis. These include the following: (1) U.S. FTAs are generally negotiated much more quickly than WTO accessions, which often take many years to complete. Even if the degree of policy commitment achieved with the two mechanisms were approximately equal, this would suggest that making the commitment through FTAs is more efficient. (2) The length of time it takes to negotiate an FTA or accession varies widely. Agreements with larger economies and economies with weaker initial policies appear to take longer. This suggests that both the extent of needed reform and the weight of commercial issues play a role in the length of time. (3) Recent U.S. FTA partners begin negotiations with a stronger policy environment than recent WTO accession candidates, which may be associated with a greater *ex ante* commitment to reform. This suggests that selection of potential partners may play a role in the extent of the success of any policy commitments achieved during FTA negotiations. WTO accession, by contrast, is in principle open to all comers. (4) While there is anecdotal evidence of countries undertaking reforms as part of an FTA negotiation or accession process, there is no systematic pattern of improved governance associated with the period of negotiation. This is definitely the case for the “Governance Matters” indicators. For the Heritage Foundation indicators, indicators of trade policy improve as well as (for WTO accessions) the aggregate indicator of “economic freedom,” but some sub-indicators (such as FDI, regulation, and property rights) deteriorate more often than they improve.

Data such as those assembled here can be used in more formal quantitative analyses of the effects of either FTAs or WTO accession on economic quantities. One natural extension of this work is to look for effects on FDI. Market decisions about which countries to invest in should be expected to be sensitive to a broad range of information about the policy environment

in the host country, both explicit and tacit. Moreover, because investment decisions are by their nature both forward-looking and respond to new information, they may be expected to coincide with periods of negotiation leading to successful policy commitments. The experience of Mexico's NAFTA negotiation and, possibly, China's accession to the WTO suggest such a pattern. A full-blown analysis of the link between negotiations and FDI has not been performed yet, since it requires resolution of a number of issues resolving data and specification.

The scope of this paper is also limited in that it only considers the case of FTAs for which the United States is the large-country partner. The experience of engagement with the EU with developing economies or economies in transition could also be studied fruitfully in this regard. Describing the stylized facts for countries which engage with the EU is significantly more complicated than for countries which engage with the United States, due both to the multiple and successive forms such engagement has taken historically and to the potential depth of full accession with the EU, which implies substantial variation in the depth of integration at any given point in time prior to or outside of accession.

B. FTAs vs. WTO Accessions

Among the *a priori* reasons which may be offered in support of the argument that FTA negotiations offer the prospect for deeper integration and firmer "policy anchoring" than WTO accessions are the following:

- (1) FTA negotiations take place more rapidly than WTO accessions, and are almost always completed more quickly. The median time for completing an FTA negotiation with the United States is 2.5 years. The median time for completing the task of a WTO Working Party, the most intensive phase of the accession process, is 6.8 years, with a substantially larger variance. The likelihood of changes in government (or of mid-level players in the negotiations), changes in policies which alter the benchmark

from which negotiations begin, or changes in economic conditions are much higher in a WTO accession than in an FTA negotiation.

- (2) The process of FTA negotiations is simpler. In the case of negotiations with the United States, they are either one-on-one negotiations with countries, or many-on-one negotiations (i.e. CAFTA-DR, SACU, Andean) still having the United States as partner. By contrast, there may be two dozen or more members in a WTO accession party, each presenting the candidate with separate agendas which may need to be handled bilaterally or plurilaterally. The process of negotiating with the EU may represent an intermediate case, with a single actor as the “anchor” but with intra-EU politics potentially to be taken into account.
- (3) Accession to the WTO is in principle limited to matching the commitments of the current Members. Other than country-specific market access schedules, these consist of the Uruguay Round commitments negotiated in 1994 and represent a static target. FTAs can and do deal with more and deeper issues. For example, they may have provisions relating to labor, the environment, and competition policy which to date have been non-negotiable in the consensus environment of the WTO, and they may be deeper in such areas as customs and trade facilitation, harmonization of standards, investment, and intellectual property.

Timetables for recent U.S. FTAs were reconstructed from a variety of sources, including fact sheets and press releases at USTR’s web pages on bilateral trade agreements (http://www.ustr.gov/Trade_Agreements/Bilateral/Section_Index.html) and various USITC reports. The trade agreements fall into two broad groups. The first group (Israel, Canada, NAFTA) were ratified under the “fast-track” trade negotiating authority of the Trade Act of 1974, under which Congress voted trade agreements “up-or-down” without amendment. The Jordanian FTA was conducted during the period from 1995-2002 under which such authority had

lapsed, while the agreements from Singapore and Chile onwards were negotiated under the Trade Promotion Authority granted by Congress in the Trade Act of 2002.

For the agreements which have been successfully concluded, the time from the beginning of negotiations to the final entry into force has ranged from 18 to 38 months (1.5 to 3.1 years), with Jordan being the quickest and Singapore taking the longest. Arguably the process may take longer, as a period of “talks about talks” may precede the start of formal negotiations and include a formal statement of intent to enter into negotiations. Dates for “intent to negotiate,” when available, generally precede the start of formal negotiations by three to six months. At the time of writing (November 2005), none of the agreements still under negotiation has taken longer than 38 months, though the agreement with the Southern African Customs Union (SACU) is beginning to approach that length of time.

Table 2 lists the countries which have successfully acceded to the WTO since its establishment in January 1995. There is a standard sequence of events in WTO accession:

- The candidate applies for membership.
- A Working Party is established, consisting of those current WTO members taking an interest in the membership application. Following this, the candidate produces a memorandum describing all aspects of its trade and economic policies that have a bearing on WTO membership.
- The Working Party convenes and meets several times. The candidate Member makes market access and other commitments, and discusses these both with the Working Party and bilaterally with individual Members. A draft Working Party report is drawn up, and eventually finalized, with the market access offer being set down in a “protocol of accession.”
- The WTO’s General Council or Ministerial Conference accepts the protocol of accession on a two-thirds vote of the members, completing the accession process.

Time may be expended at each stage of the membership process. There may be delays in establishing the Working Party, or in convening it to meet once it is established. Time consumed in the applicant's preparation of the initial policy memorandum may lead to substantial delays in convening an established Working Party. The resulting information may be considered to be incomplete, members of the Working Party may have further questions, or the information itself may change as the result of domestic policy changes.

Table 2 presents several metrics for measuring the length of the accession process. Three time metrics, in ascending length of time, are (1) the time from the first meeting of the Working Party to its Final Report: (2) the time from the establishment of the first Working Party to its final report (the addition being largely the time it takes the applicant to prepare the initial description of its policies: and (3) the time from application to membership (not measurable in all cases because of missing information on the date of applications under the pre-WTO GATT system that were transformed into WTO applications). A second metric, which captures both time and the complexity of the negotiations, is the number of times the Working Party met for each applicant.

Since the establishment of the WTO, there have been 20 completed accessions. For these the distribution of time and complexity was as follows:

	Mean	S.D.	Min	Max
Years during which Working Party met	4.2	2.9	1.3 (Kyrgyz Rep).	13.7(China)
Years from organization of Working Party to Final Report (China)	7.0	3.3	2.3 (Kyrgyz Rep).	14.6
Number of meetings	7.9	8.1	3 (Georgia, Nepal)	41 (China)

There is very little overlap between the short times observed to complete U.S. FTA negotiations and the longer times observed for WTO accessions. It may be thought that the very

long time for China's WTO accession pulls up the average time substantially, but the medians are not much lower than the means: 4.0 years for Working Party meetings and 6.7 years from the establishment of the Working Party to the Final Report. (The mean of 2.7 years that it takes for an established Working Party to meet for the first time, associated with the applicant's preparation of its initial memorandum, is longer than the average time for an entire U.S. FTA, and is actually made lower by the inclusion of China).

Finally, Table 3 describes the 31 WTO accessions which were ongoing as of November 2005.⁶ Most of these have been going on for a very long time. The list includes 11 cases which have gone on for 10 or more years. It is in fact Algeria, rather than China, which holds the record for the longest-running Working Party, dating back to 1987. Several of these ongoing accessions look like fair prospects to exceed China's mark for time consumed, if not for the number of working parties. (Russia's incomplete accession is second to China's for the largest number of working party meetings at 27).

Taking into account ongoing accessions and ongoing FTAs makes the contrast between the length of time taken by the two processes even more sharp. If in fact negotiating an FTA with the United States involves a level of commitment anywhere near that of a WTO accession, it appears at the outset that such a negotiation could not be successfully completed by many of the countries currently engaged in the WTO accession process, let alone in three years or less.

C. Some Anecdotal Evidence

1. Mexico and NAFTA

With historical hindsight, it is now clear that Mexico's negotiation of NAFTA served as a means to "anchor" policy commitments that had been made previously, particularly in the area of FDI policy. Embodying these commitments in the form of an agreement with the United States,

⁶ Table 3 includes Saudi Arabia, which completed its Working Party in November 2005 and is expected to be admitted to the WTO at the Hong Kong Ministerial in December 2005.

which accounted for over 80 percent of Mexico's foreign trade at the time of the agreement, insured that they would be more difficult to undo later. It is equally clear that Mexico's path to opening was both driven by domestic initiatives and shaped by other external anchors prior to NAFTA, including Mexico's agreements with the IMF in the early 1980s and its accession to GATT in 1986. Changes in FDI rules in 1989 and 1993 were formalized and extended in NAFTA commitments. Mexico's restructuring of its debts in the 1989 Brady Plan, its wave of privatizations during 1989-92, and the 1992 constitutional amendment transforming agriculture, created an environment in which a lowering of barriers to trade with the United States and Canada could potentially provide significant efficiency gains through reallocation of resources.

In June 1990, Presidents Bush and Salinas endorsed the concept of a comprehensive free trade agreement, which was formally negotiated from June 1991-August 1992 and ratified in the United States in November 1993. Figure 1, plotted on a logarithmic scale, shows a progressive scaling up of FDI into Mexico: approximately \$1-\$2 billion a year preceding the negotiations, \$4-\$5 billion a year during the negotiations and ratification, and upwards of \$10 billion a year subsequently. This pattern lends credence to the idea that NAFTA was seen as more than simply a reformulation of existing Mexican FDI policy. The Mexican policy process itself responded proactively to the outcome of the NAFTA negotiations in a number of areas, demonstrating endogeneity between domestic policy and international negotiations. (USITC (1993, 1997)).

2. *China's WTO Accession*

The primary external anchor for China's reforms has been its WTO accession. China's lengthy and elaborate WTO accession process, extending from 1986 through 2001, encompasses a very substantial portion of the history of China's economic reforms beginning in 1979. China's case illustrates the point that substantial domestic policy change can take place without an external anchor. Substantial expansion of special economic zones and foreign trading companies took place in the years prior to China's WTO application, as well as alterations to the exchange

rate system to accommodate the increased flow of foreign transactions. Nonetheless, one can make a reasonable case that the trajectory of China's reforms, in specific areas such as services and intellectual property as well as the massive unilateral tariff reduction undergone by China during the early 1990s (made even greater by special policies relating to FDI and economic zones), was conditioned by the external anchoring effect of repeated engagement with the WTO Working Party, including bilateral engagement with large members such as the United States, EU, and Japan. Indeed, WTO commitments have even been portrayed as a tool Beijing could use to obtain consistency and uniformity from increasingly independent provincial and local governments. (USITC (1999)).

3. *Recent U.S. FTAs*

It is often reported that negotiations of FTAs with the United States are associated with specific reforms, both those which are explicitly enumerated in the agreement and those not necessarily enumerated but understood by the participants in some sense to be linked. Customs reforms in the Central American countries (World Bank (2005)) and Morocco have been attributed to FTAs. These initiatives naturally flow from the need to implement direct provisions of the FTA such as the enforcement of rules of origin, but may provide spillover benefits in terms of quicker clearance times for goods, which may be valuable to business. (World Bank (2005)). In Morocco, new labor legislation providing for shortening of the statutory workweek, increasing the age definition of child labor, and increasing the minimum wage, was passed weeks before final conclusion of the U.S.-Morocco FTA and noted by USTR. (USTR (2005)) In Ecuador, links have been suggested between the U.S.-Andean FTA have been linked to proposed new incentives for FDI, strengthening of the financial system to prevent money laundering, strengthening of sanitary and phytosanitary (SPS) regulations, and possible resolutions of disputes between the Ecuadorian government and a long list of U.S. companies. (Wong (2005)). Because negotiating an FTA with a large partner interacts with a wide variety of domestic

political and economic forces, the number and extent of policy changes in a small country which negotiates an FTA with a large partner are not readily subject to definitive enumeration.

II. LINKAGES AMONG AGREEMENTS, POLICY, AND PERFORMANCE

There are a large number of direct and indirect channels through which negotiating either an FTA or a WTO accession could impinge either directly or indirectly on a small developing-country partner through either direct or indirect processes.⁷ There are a diverse array of actors in any domestic political process. These are not limited to export interests and import-competing interests, whose stakes in the market access provisions of an FTA are well understood by economists. They may, in addition, include regime elites whose primary interest is maintaining power, pro-reform interests in general, civil servants who are interested in maintaining wages and benefits in the government budget, unions interested in protecting or expanding bargaining power, and urban consumers interested in maintaining budgetary subsidies.

Economically, an FTA may influence both the external balance (balance of payments) and internal balance (government budget) within a country. Changes in flows of trade and FDI may increase or decrease pressure on the current account, affecting the valuation of currency and potentially increasing (or reducing) pressure for currency reform. Structural displacement of labor may result due to changing internal prices caused by liberalization. Addressing displacement may be a significant social, political, and budgetary issue. Internal balance may be affected by the loss of tariff revenue, changes in the ability to finance officially contracted foreign debt, and aid-type payments associated with the agreement (Both the U.S. Agency for International Development and the EU's aid programs engage in expenditures which are directly or indirectly associated with to liberalization agreements).

Policies with respect to regulation, privatization, and FDI may be directly linked to provisions of an agreement, particularly one involving services commitments. Potential changes in the full range of fiscal, monetary, and regulatory policies may be pushed in one direction by

⁷ Some of these are illustrated schematically in a diagram for the slideshow accompanying this paper, which could not readily be reproduced in the current text.

domestic forces, and simultaneously pushed in either the same (or a different) direction by forces associated with negotiation or implementation of an FTA.

III. TWO CASE STUDY SKETCHES – MOROCCO AND ECUADOR⁸

The timelines presented above, as well as the analysis to follow, suggest that case-specific circumstances are likely to impact on the success of a country’s engagement with a given policy anchor, whether it be an FTA, a WTO accession, or (related but beyond the scope of this paper) an IMF funding agreement. The presence of multiple “anchors” is not uncommon. The degree to which engagement with an anchor is associated with successful domestic reform may well depend on the ability of developing-country policymakers to make internal commitments, which in turn may depend largely on domestic factors.

The cases of Morocco and Ecuador have been chosen for brief description here on somewhat arbitrary grounds. Both cases involve more than one “anchor” – for Morocco, both the EU and the United States; for Ecuador, a recent WTO accession, on-and-off IMF agreements and the Andean Pact, in addition to the United States. The cases differ substantially in the ability of domestic political forces to make commitments. Further study of these and similar cases may turn out to be informative.

A. Morocco

The Moroccan government’s ability to commit to changes in economic policy is conditioned by the central role of the king in the constitutional monarchy. Though Morocco has parliamentary elections, the political leadership of the king is generally not questioned, and calls for a republic are marginalized. Thus, the succession of the late Hassan II by then 36-year old

⁸ Except where elsewhere noted, the Economist Intelligence Unit “Country Profiles” for Morocco and Ecuador have been drawn on heavily in this section, with selective emphasis on those factors most relevant to the story at hand. A more detailed timeline of events in Ecuador, which draws in addition on USTR press releases and reports from the geopolitical intelligence service Stratfor for the most recent period, appears as an Appendix to this paper.

Mohammed VI in 1999, represented a significant shift in policy. Under Mohammed, the most severe human rights abuses have been moderated, some political opening has taken place, an anti-corruption drive has led to some trials of civil servants, and the rights of women in family law have been expanded. The terrorist attacks on Casablanca in 2003 have not fundamentally affected the Moroccan polity. They do not appear to be associated with a sustained strengthening of jihadist forces which may wish to undermine the present regime and have led to several waves of arrests of suspected terrorists.

Morocco's engagement with external anchors in trade policy can be understood to some extent in the above context. The balancing between external poles of influence, which in the Cold War environment consisted of maintaining good relations with the United States and Soviet Union simultaneously, has become a balancing among trade partners. The Association Agreement between Morocco and its largest partner, the EU, went into effect in March 2000. It confirms the previously existing state of relatively free trade in manufactures and provides for negotiations for agricultural liberalization, as well as for consultations in such areas as migration. As in the case of Mexico, Morocco has undergone a number of privatizations (1999-2000) and a 2003 labor code reform making labor markets more flexible while securing bargaining rights. However, revenue from privatization has gone largely for current budgetary needs, and Morocco maintains a chronic fiscal deficit leading to a borrowing requirement of 4 to 5 percent of GDP. Morocco's FTA with the United States which was negotiated from January 2003 to March 2004 and ratified in July 2004.

B. Ecuador

The Ecuadoran polity has been characterized by a frequent and unpredictable succession of governance since the restoration of civilian rule under the 1979 constitution. Quadrennial presidential elections inevitably feature a runoff, with the winning candidate usually representing a minority of the electorate and possessing only a minority in Congress. The powers of the Ecuadoran Congress are substantial. Until the Constitutional reforms of 1998, Congress could dismiss ministers, and Presidents were subject to midterm elections. Even afterwards, the ability of factions in Congress representing ethnic groups, organized labor, or charismatic personalities to block commitments which Presidents made internationally has been substantial. In 1997, 2000, and 2005, Presidents were ousted mid-term by a combination of Congressional action and mass demonstrations. This has made it difficult to deal with such issues as banking crises and external defaults.

Nonetheless, Ecuador has in some instances managed to make external commitments which led to modest liberalization or reform. These include the implementation of Andean Community tariff reforms in 1994 and WTO accession from 1992-1995. The period of the WTO accession saw both the implementation of the Andean commitments and a privatization and simplification of export and import procedures. The dollarization program of 2000 provided a monetary “anchor” in the wake of a banking and default crisis. An IMF standby arrangement was restored from 2001-2004 after having been absent since the 1980s, but proved difficult to maintain. Documents associated with IMF surveillance of Ecuador demonstrate the difficulty of making internal commitments within the rapidly changing Ecuadoran regime. In this environment, the beginning of U.S. negotiations with Ecuador and Peru was formalized two months later than those with Colombia, though they are described as being part of the same FTA.

IV. EVIDENCE ON GOVERNANCE – FTAs vs. WTO ACCESSIONS

A. The “Governance Matters IV” Indicators

In order to get a rough indication of whether the conditions of governance in developing countries broadly improved during the period of negotiations, the “Governance Matters” indicators of the World Bank were employed. (Kaufmann, Kraay and Mastruzzi (2005)). The indicators are measured for even-numbered years from 1996-2004 for a maximum of 209 countries. As stated by the authors the indicators capture six dimensions of institutional quality or governance:

1. *Voice and Accountability* – measuring political, civil and human rights
2. *Political Instability and Violence* – measuring the likelihood of violent threats to, or changes in, government, including terrorism
3. *Government Effectiveness* – measuring the competence of the bureaucracy and the quality of public service delivery
4. *Regulatory Burden* – measuring the incidence of market-unfriendly policies
5. *Rule of Law* – measuring the quality of contract enforcement, the police, and the courts, as well as the likelihood of crime and violence
6. *Control of Corruption* – measuring the exercise of public power for private gain, including both petty and grand corruption and state capture.

Of these, one might expect “Regulatory Burden” to most nearly capture the types of pro-market reforms that are thought to be associated with the “policy anchors” hypothesis, with “rule of law” and some of the others playing a secondary role.

The indicators are based on 352 underlying variables measuring perceptions on governance, drawn from 32 data sources compiled by 30 organizations worldwide. They are

normalized and aggregated, so that each indicator in each year is approximately a standard normal variable with mean of zero and with most of the values lying between -2 and +2. Thus, “progress” in the indicators represents “progress” relative to global average governance rather than absolute progress. Because the indicators are aggregates, they come with standard deviations and the number of observations used in each indicator. Thus, difference-of-means tests can be applied to changes in the values of the indicators over time, and a level of statistical significance can be assigned to measured improvement or deterioration relative to the period-specific worldwide mean levels.

The method used to compare “before and after” scores is as follows:⁹

First: date the period of engagement. For U.S. FTAs, this is defined as beginning in the year that intent to negotiate was announced and ending in the year of entry into force or 2004, whichever comes first. For WTO accessions, the period of engagement is defined as extending from the year of the first Working Party meeting to the year of the final Working Party report or 2004, whichever is first. Countries with WTO working parties still meeting in 2005 are considered to be “ongoing accessions” while those with their final working party in 2004 or more are considered to be completed.

Second, adjust the dates for the biennial nature of the “Governance Matters” data. Odd-numbered beginning dates are attributed to the year before, and odd-numbered ending dates are attributed to the year after. The effect of this procedure is to restrict the sample only to those countries with processes of engagement that have a distinct biennial beginning and ending point between 1996 and 2004; e.g. intent to negotiate for the U.S. FTAs must be in 2002 or earlier. The resulting sample includes 10 countries with U.S. FTAs, 10 countries with complete WTO accessions between 1996 and 2004, and 13 countries with WTO accessions beginning in 1996

⁹ I have made the somewhat arbitrary decision to exclude Australia from the U.S. FTA sample. As a developed country, its standard of governance would be considered high *ex ante* by any definition and unlikely to be affected by engagement in FTA negotiations with the United States.

and ongoing in 2005. Of the ongoing accessions, data is available for either 9 or 10 countries, depending on the indicator. Inclusion of the beginning and ending periods has both advantages and disadvantages. The sample The advantages include the possibility of including preparatory activities before the formal beginning date and actions to come into compliance with commitments just after the formal ending date. The obvious disadvantage is that the dating is less precise.¹⁰

Figure 2 illustrates the initial levels of the “Governance Matters” indicators for the three groups of countries in question. For every one of the six indicators, the quality of governance *ex ante* is highest for the U.S. FTA partners, lowest for the ongoing WTO accessions, and intermediate for the completed WTO accessions. Moreover, every one of the indicators is above-average on a global basis (above 0) for the U.S. FTA partners, below-average for the completed WTO accessions and further below average for the ongoing WTO accessions. This immediately dramatizes two points. First, since the partners in U.S. FTAs are selected to have higher ex-ante governance, the chances of their being willing to make significant commitments during the process of engagement would be expected to be higher.¹¹ Second, when taken together with data on the length of time for accessions, a long on-going accession process is likely to be a difficult one, and this in turn is associated with weak governance in the country being engaged. It is also interesting to note that the degree of dispersion among the three groups is highest for the “regulatory quality” indicator, the indicator most likely to be associated with the matters at issue in the period of engagement. The average *ex ante* score for “regulatory quality” is .42 for the

¹⁰ I plan to attempt to replicate this effort by using the various components of the Heritage Foundation’s *Index of Economic Freedom*. These are reported annually for 1995-2005 and include components for trade policy, foreign investment policy, and regulation which would be expected to be more closely associated with the activities in question. The scores also are considered to represent absolute improvement or deterioration rather than being normalized. They are not, however, reported with standard errors.

¹¹ It should be noted that the sample selection process causes a focus on the countries which became engaged in the U.S. FTA process first. A sample of all U.S. FTA partners, including the SACU and Andean countries, may not show equally high scores on average.

U.S. FTA partners, -.13 for the completed WTO accession candidates and -.61 for the ongoing WTO accession candidates.

Tables 4, 5, and 6 report the complete set of initial values, changes in values, and significance levels associated with those values for the three samples. The significance values were calculated with a standard difference-of-means test. Table 7 summarizes those values in Table 6 which correspond to a significant one-tailed change of $p \geq .9$ (i.e. $p \geq .9$ for improvements, $p \leq .1$ for deteriorations). The most striking thing about the results in Table 7 is that they show little evidence of improved governance by any indicator for any of the three groups. The ongoing WTO accessions, in fact, show more cases of deterioration than improvement in five of the six indicators, showing a balance of improvement only for “government effectiveness.” This is not encouraging, as it suggests only more efficient repression and corruption. It is true that we might not expect such indicators as “political stability” and “control of corruption” to be highly associated with processes of engagement for trade liberalization. It is also modestly encouraging that there are more significant improvements in the “regulatory quality” indicator than for any other (nine all told, three in each category). But this is a fairly weak source of support for the policy-anchors hypothesis, since there are also 10 cases of deterioration and 11 cases of no statistically significant change. Some of the results are simply ironic. 7 of 10 U.S. FTA partners show statistically significant deterioration in the rule of law, and 6 of 10 show statistically significant deterioration in political stability, in the period in question. One must hasten to add that causation should not be attributed here! Rather, the domestic circumstances in the prospective partners are environmental factors with which the FTA negotiations have had to contend.

C. The *Index of Economic Freedom*

Table 8 performs a similar exercise for the aggregate *Index of Economic Freedom* score of the Heritage Foundation and several of its subscores (trade, foreign investment, regulation, and property rights).¹² Specific scores for trade and foreign investment are not available in the “Governance Matters” database, which is an advantage since these scores are available on an annual basis from 1995-2005, they make possible a somewhat more precise accounting of timing,¹³ as well as inclusion of a few extra cases in the sample. On the other hand, the scores do not provide much discrimination among levels in the sub-index (in most cases they take on 1-5 values with no intermediate values, with lower scores indicating better performance) and do not come with standard deviations.

The finding from the “Governance Matters” index of relative *ex ante* quality is robust to using the Heritage Foundation scores. Completed U.S. FTA candidates start out with stronger governance than countries with completed WTO accessions, which in turn outrank countries with ongoing WTO accessions. However, the data on the change in scores is very different. On three of the indicators one might associate with FTA- or accession-linked reform (foreign investment, regulation, and intellectual property), there are multiple examples of improved scores, and only one example of a declining score. The result for the “trade” score is very odd. In 10 out of the 11 cases of a change in score associated with WTO accession, the score in fact declines. It is possible that this may reveal some anomaly in the methodology by which the score is compiled.

¹² The aggregate index assigns equal weight to ten sub-indicators. The six not analyzed here represent “fiscal burden,” “government intervention,” “monetary policy,” “banking,” “wages and prices,” and the “informal market” (an indicator of the extent to which black markets crowd out formal markets).

¹³ For Table 8, the beginning year is defined as the year negotiations began for U.S. FTA candidates, and the year of the first Working Party meeting for WTO accessions. The terminal year is defined as the year of U.S. congressional ratification for completed U.S. FTA negotiations, the year of the final Working Party meeting for completed WTO accessions, and 2005 for ongoing WTO accessions.

Beach and O’Driscoll (2000, p. 75) describe the trade policy grading scale in such a way that it depends largely on the average tariff (the top score of 1 is given for average tariffs less than or equal to 4 percent, with the levels 2-5 corresponding to tariffs up to 9 percent, 14 percent, 19 percent and above), with some possible modification of the scores based on an impression of non-tariff barriers. Countries in the WTO accession process may not have had publicly assessable tariff schedules prior to the accession process. Reporting of information to the WTO might account for the observed pattern.

V. SUMMARY AND DIRECTIONS FOR FUTURE RESEARCH

The present paper has identified several reasons for thinking that U.S. FTAs might serve as more effective “anchors” for domestic policy reform than WTO accessions. Engagement with a single partner can go deeper than the Uruguay Round commitments. It is easier to engage with a single partner than a WTO working party, and to make commitments. Thus, the process goes faster. Moreover, at least in the initial period following the Trade Act of 2002, U.S. FTA partners have been selected from countries which on average offered greater prospects for successful engagement. However, a fairly crude test based on indicators of governance shows no systematic tendency for governance to improve for either U.S. FTA partners or WTO accessions.

Possible extensions of this work include econometric examination of FDI flows during the period in question, consideration of other governance indicators, and case studies.

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**Table 1
Timeline for U.S. FTAs**

	Beginning of negotiations	Completion of agreement	Signing	Ratification	Entry into force	Duration (months) ⁴	Duration (years) ⁴
Israel	Jan-84		Apr-85		Aug-85	19	1.6
Canada	Jun-86		Jan-88		Jan-89	31	2.5
NAFTA	Jun-91	Aug-92	Aug-92	Nov-93	Jan-94	31	2.6
Jordan	Jun-00		Oct-00		Dec-01	18	1.5
Singapore	Nov-00	Jan-03	May-03	Jul-03	Jan-04	38	3.1
Chile	Dec-00	Dec-02	May-03	Jul-03	Jan-04	37	3.1
Morocco	Jan-03	Mar-04	Jun-04	Jul-04	Jan-06 ¹	36	3.0
Australia	Mar-03	Feb-04		Jul-04	Jan-05	22	1.8
SACU	Jun-03					30	2.5
Bahrain	Jan-04	May-04	Sep-04	Dec-05	To be determined	22	1.8
CAFTA-DR	Jan-03 ²	Dec-03	May-04	Jul-05	To be determined	35	2.9
Panama	Apr-04					19	1.6
Andean	May-04 ³			Dec-05 for Peru		18	1.5
Thailand	Jun-04					17	1.4
UAE	Mar-05					9	0.7
Oman	Mar-05	Oct-05				9	0.7

¹ Pending approval of intellectual-property legislation by the Moroccan parliament.

² With Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. USTR notified Congress of intent to begin negotiations with the Dominican Republic in August 2003.

³ With Colombia, Ecuador, and Peru. USTR's declaration of intention to Congress, in November 2003, also includes Bolivia.

⁴ Through November 30, 2005, for agreements not entered into force.

NAFTA includes Canada and Mexico. SACU includes Botswana, Lesotho, Namibia, South Africa, and Swaziland.

Table 2
Completed WTO Accessions as of November 2005

	Years from first Working Party to Final Working Party Report	Years from establishment of Working Party to Final Report	Years from application to membership	Application	Working Party Established	First Working Party	Number of Working Party Meetings	Final Working Party Report	Membership
Albania	4.3	7.6	7.8	Nov-92	Dec-92	Apr-96	9	Jul-00	Sep-00
Armenia	6.8	8.9	not available	?	Dec-93	Jan-96	5	Nov-02	Feb-03
Bulgaria	4.8	9.8	not available	?	Nov-86	Nov-91	9	Sep-96	Dec-96
Cambodia	2.3	8.7	10.0	Oct-94	Dec-94	May-01	5	Aug-03	Oct-04
China	13.7	14.6	15.3	Jul-86	Mar-87	Feb-88	41	Oct-01	Nov-01
Croatia	4.2	6.7	7.2	Sep-93	Oct-93	Apr-96	6	Jun-00	Nov-00
Ecuador	2.0	2.8	3.3	Sep-92	Oct-92	Jul-93	9	Jul-95	Jan-96
Estonia	4.4	5.1	5.7	Mar-94	Mar-94	Nov-94	8	Apr-99	Nov-99
FYR Macedonia	2.2	7.8	8.3	Dec-94	Dec-94	Jul-00	5	Sep-02	Apr-03
Georgia	1.4	3.1	4.0	Jun-96	Jul-96	Mar-98	3	Aug-99	Jun-00
Jordan	3.2	5.9	6.3	Jan-94	Jan-94	Oct-96	5	Dec-99	Apr-00
Kyrgyz Rep	1.3	2.3	2.8	Feb-96	Apr-96	Mar-97	6	Jul-98	Dec-98
Lithuania	5.1	6.8	7.3	Jan-94	Feb-94	Oct-95	5	Nov-00	May-01
Latvia	3.5	4.8	5.3	Nov-93	Dec-93	Mar-95	6	Sep-98	Feb-99
Moldova	3.8	7.1	7.7	Nov-93	Dec-93	Mar-97	5	Jan-01	Jul-01
Mongolia	3.3	4.7	not available	?	Oct-91	Mar-93	5	Jun-96	Jan-97
Nepal	3.3	14.2	not available	?	Jun-89	May-00	3	Aug-03	Apr-04
Oman	3.4	4.3	1.4	Apr-96	Jun-96	Apr-97	6	Sep-00	Nov-00
Panama	2.4	5.7	not available	?	Jan-91	Apr-94	5	Sep-96	Jul-97
Chinese Taipei	8.9	9.0	not available	?	Oct-92	Nov-92	11	Oct-01	Jan-02

Memo: The WTO was established in January 1995. Some countries in this table began the process to accede to GATT 1947 before WTO accession processes were available. Based on "Protocols of Accessions for New Members Since 1995, Including Commitments In Goods and Services," found at http://www.wto.org/english/thewto_e/acc_e/completeacc_e.htm, and author's calculations. This table does not reflect the accessions of Saudi Arabia and Tonga in December 2005.

Table 3
Ongoing WTO Accessions as of November 2005

	WP established/Nov. 2005 (yrs)	First WP/Draft Report (years)	WP Established /Draft Report (years)	Applicati on/Draft Report (years)	Application	Working Party Established	First Working Party	No.of Working Party Meetings	Draft Working Party Report	
Afghanistan	0.9	-	-	-	Nov-04	Dec-04				
Algeria	18.4		6.8	17.7	17.7	Jun-87	Jun-87	Apr-98	8	Feb-05
Andorra	8.1	-	-	-	Jul-99	Oct-97	Oct-99	1		
Azerbaijan	8.3	-	-	-	Jun-97	Jul-97	Jun-02	2		
Bahamas	4.3	-	-	-	May-01	Jul-01				
Belarus	12.1		7.1	10.8	10.8	Sep-93	Oct-93	Jun-97	6	Jul-04
Bhutan	6.1		-	-	Sep 99	Oct-99	Nov-04	1		
Bosnia and Herzegovina	6.3	-	-	-	May-99	Jul-99	Nov-04	2		
Cape Verde	5.3		0.6	4.3	4.9	Nov-99	Jul-00	Mar-04	2	Oct-04
Ethiopia	2.8	-	-	-	Jan-03	Feb-03				
Iran	0.5	-	-	-	Jul-96	May-05				
Iraq	0.9	-	-	-	Sep-04	Dec-04				
Kazakhstan	9.8		7.5	8.6	8.7	Jan-96	Feb-96	Mar-97	7	Sep-04
Lao People's Democratic Republic	7.8	-	-	-	Jul-97	Feb-98	Oct-04	1		
Lebanese Republic	6.6		1.8	5.3	5.5	Jan-99	Apr-99	Oct-02	3	Jul-04
Libyan Arab Jamahiriya	1.6	-	-	-	Jun-04	Apr-04				
Montenegro	0.6	-	-	-	Dec-04	Apr-05				
Russian Federation	12.4		9.3	11.3	11.3	Jul-93	Jun-93	Jul-95	27	Oct-04
Samoa	7.3	-	-	-	Apr-98	Jul-98	Mar-02	1		Jun-03
Sao Tome and Principe	0.5	-	-	-	Jan-05	May-05				

Saudi Arabia	12.3	8.3	11.0	11.1	Jun-93	Jul-93	Mar-96	12	Jul-04
Serbia	0.8 -	-	-	-	Dec-01	Feb-05			
Seychelles	10.3	0.3	1.9	2.1	May-95	Jul-95	Feb-97	1	Jun-97
Sudan	11.1	1.2	9.9	9.9	Oct-94	Oct-94	Jul-03	2	Sep-04
Tajikistan	4.3	1.1	3.8	3.9	May-01	Jul-01	Mar-04	1	Apr-05
Tonga	10.0	3.1	8.5	8.9	Jun-95	Nov-95	Apr-01	1	May-04
Ukraine	11.9	10.1	11.3	11.3	Nov-93	Dec-93	Feb-95	14	Mar-05
Uzbekistan	10.9 -	-	-	-	Dec-94	Dec-94	Jul-02	2	
Vanuatu	10.3	5.3	6.3	6.3	Jun-95	Jul-95	Jul-96	2	Oct-01
Viet Nam	10.8	6.3	9.8	9.8	Jan-95	Jan-95	Jul-98	9	Nov-04
Yemen	5.3 -	-	-	-	Apr-00	Jul-00	Nov-04	1	

Figure 1

Mexico: FDI, net inflows, billion nominal dollars (Logarithmic Scale)

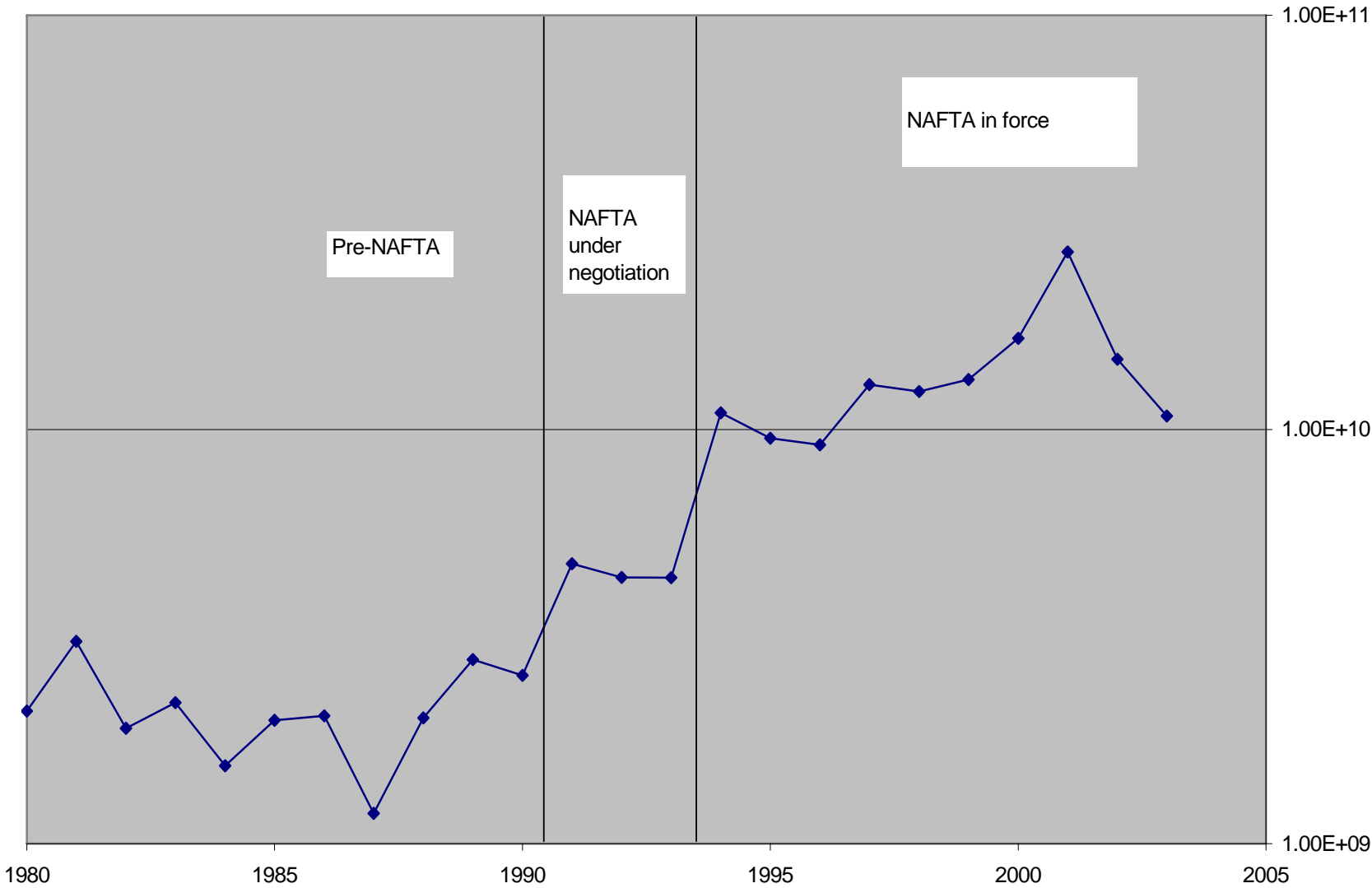


Figure 2
Initial values, "Governance Matters" indicators

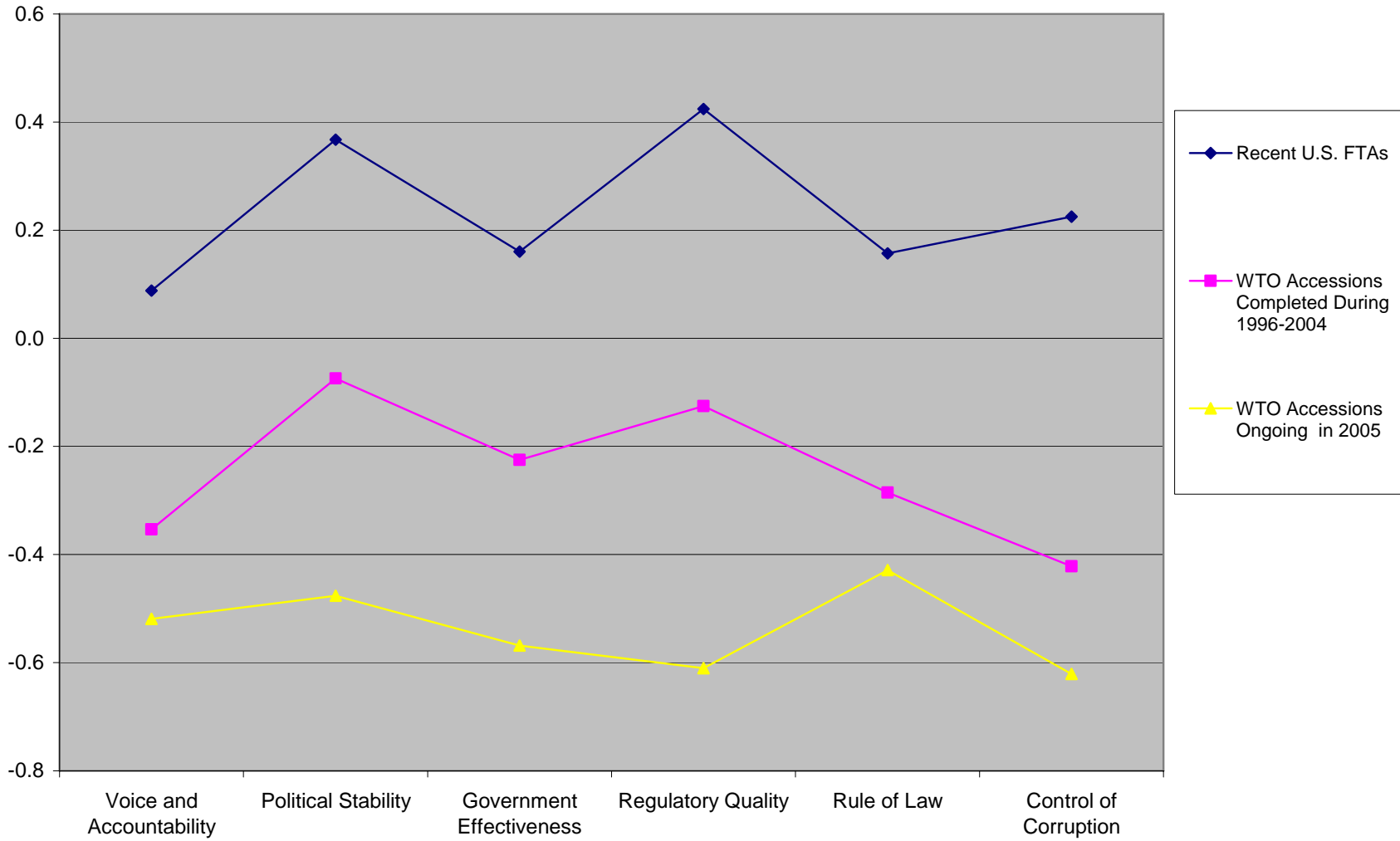


Table 4
Initial Values of "Governance Matters" Indicators

Recent U.S. FTAs

		Voice and Accountability	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption	Country means
1	JORDAN	-0.1914	0.2136	0.3972	0.6827	0.5516	0.1492	0.3005
2	MOROCCO	-0.3044	-0.1843	0.0553	-0.0138	0.0702	-0.0501	-0.0712
3	GUATEMALA	-0.4842	-0.4312	-0.5776	-0.0833	-0.8381	-0.7062	-0.5201
4	SINGAPORE	-0.0511	1.5209	2.4393	2.3115	2.0968	2.5066	1.8040
5	HONDURAS	-0.1549	-0.0800	-0.7315	-0.3442	-0.7695	-0.7648	-0.4742
6	NICARAGUA	0.0872	0.1135	-0.8469	-0.4079	-0.6693	-0.4569	-0.3634
7	EL SALVADOR	0.0635	0.3230	-0.5007	0.0716	-0.4301	-0.4882	-0.1601
8	DOMINICAN REP.	0.1940	0.2449	-0.4150	-0.1323	-0.4186	-0.4020	-0.1548
9	CHILE	0.5613	0.8519	1.3379	1.3754	1.3136	1.5560	1.1660
10	COSTA RICA	1.1628	1.1005	0.4461	0.7806	0.6661	0.9052	0.8436
	Group means	0.0883	0.3673	0.1604	0.4240	0.1573	0.2249	0.2370

WTO Accessions Completed During 1996-2004

		Voice and Accountability	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption	Country means
1	KYRGYZ REPUBLIC	-0.4844	0.7647	-0.4261	-0.1561	-0.6919	-0.7885	-0.2970
2	NEPAL	-0.1158	-1.1266	-0.6211	-0.3860	-0.3576	-0.5589	-0.5277
3	OMAN	-0.6102	0.7420	0.7875	0.6073	1.1217	0.1228	0.4619
4	CAMBODIA	-0.3531	-0.7335	-0.4362	-0.0675	-0.7658	-0.7185	-0.5124
5	JORDAN	-0.1565	0.3964	0.1797	0.0637	0.2002	-0.0962	0.0979
6	ARMENIA	-0.5670	0.4102	-0.3229	-0.7367	-0.4606	-0.6493	-0.3877
7	GEORGIA	-0.3741	-0.8125	-0.4049	-0.7875	-0.7350	-0.6432	-0.6262
8	MACEDONIA	-0.0269	-0.8239	-0.5200	0.1301	-0.3158	-0.4510	-0.3346
9	ALBANIA	-0.3475	0.1989	-0.3096	0.1560	-0.3199	0.0497	-0.0954
10	CROATIA	-0.5000	0.2437	-0.1736	-0.0753	-0.5299	-0.4835	-0.2531
	Group means	-0.3535	-0.0741	-0.2247	-0.1252	-0.2855	-0.4217	-0.2474

WTO Accessions Ongoing in 2005

		Voice and Accountability	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption	Country means
1	UZBEKISTAN	-1.5815	-1.0190	-1.0395	-1.4363	-1.2274	-1.0344	-1.2230
2	SAUDI ARABIA	-1.2228	-0.2738	-0.0948	0.0685	0.7548	-0.3225	-0.1818
3	BELARUS	-1.0253	0.0345	-1.2007	-1.0754	-1.0127	-0.9247	-0.8674
4	VIETNAM	-1.6373	0.5919	-0.1747	-0.5834	-0.8067	-0.6011	-0.5352
5	KAZAKHSTAN	-0.9973	-0.0475	-0.8285	-0.2722	-0.7332	-0.8480	-0.6211
6	AZERBAIJAN	-0.8728	-1.1340	-0.8999	-0.8715	-0.8403	-1.0372	-0.9426
7	ALGERIA	-1.4607	-2.6222	-0.9828	-1.2006	-0.7908	-0.7023	-1.2932
8	LEBANON	-0.5394	-0.6316	-0.4014	-0.4859	-0.2818	-0.3677	-0.4513
9	TONGA	-0.0878	.	-0.4686	-0.1755	-0.3897	-0.5897	-0.3423
10	SEYCHELLES	0.0971	.	-0.5761	-1.1658	.	.	-0.5483
11	VANUATU	0.4730	.	-0.2293	-0.0644	.	.	0.0598
12	SAMOA	0.6684	0.8152	0.0763	-0.0572	1.0421	0.2190	0.4606
13	ANDORRA	1.4409	.	.	.	.	.	1.4409
	Group means	-0.5189	-0.4763	-0.5683	-0.6100	-0.4286	-0.6208	-0.5371

Table 5
Observed changes in "Governance Matters" Indicators

Recent U.S. FTAs

		Voice and Accountability	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption	Country means
1	JORDAN	-0.2207	-0.5307	-0.0068	-0.5829	-0.2103	-0.1091	-0.2767
2	MOROCCO	-0.2479	-0.0477	-0.0810	-0.2440	-0.1157	0.0313	-0.1175
3	GUATEMALA	0.0906	-0.4140	-0.2920	0.0174	-0.1188	-0.0327	-0.1249
4	SINGAPORE	-0.0809	-0.0409	-0.1931	-0.4411	-0.2802	-0.0648	-0.1835
5	HONDURAS	0.1365	-0.6145	0.0475	0.0110	0.1605	0.0533	-0.0343
6	NICARAGUA	-0.0281	-0.2596	0.1370	0.2614	0.0225	0.1129	0.0410
7	EL SALVADOR	0.1963	-0.5569	0.2798	0.4914	0.0919	0.0932	0.0993
8	DOMINICAN REP.	0.0791	-0.2544	-0.0442	-0.1439	-0.1187	-0.0958	-0.0963
9	CHILE	0.5265	0.0372	-0.0674	0.2450	-0.1503	-0.1135	0.0796
10	COSTA RICA	-0.0525	-0.1170	0.0434	-0.1124	-0.0995	-0.1294	-0.0779
	Group means	0.0399	-0.2799	-0.0177	-0.0498	-0.0819	-0.0255	-0.0691

WTO Accessions Completed During 1996-2004

		Voice and Accountability	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption	Country means
1	KYRGYZ REPUBLIC	0.0247	-0.0671	0.1488	-0.5645	0.0193	0.0957	-0.0572
2	NEPAL	-0.8820	-0.6116	-0.2763	-0.2129	-0.4661	-0.0487	-0.4163
3	OMAN	-0.0724	0.3230	0.2052	0.1814	0.1141	0.6228	0.2290
4	CAMBODIA	-0.5393	0.1333	-0.4305	-0.1778	-0.2117	-0.2478	-0.2456
5	JORDAN	-0.0348	-0.1828	0.2175	0.6190	0.3514	0.2454	0.2026
6	ARMENIA	0.1309	-0.9795	-0.0675	0.8446	-0.0221	-0.0365	-0.0217
7	GEORGIA	0.1681	0.0260	-0.3130	0.2302	0.1658	-0.0620	0.0359
8	MACEDONIA	-0.2763	-0.1134	0.1513	-0.2228	-0.1323	-0.2751	-0.1448
9	ALBANIA	0.3022	-0.8110	-0.4402	-0.2124	-0.4368	-0.6556	-0.3756
10	CROATIA	0.8776	0.2426	0.3274	0.3837	0.6683	0.5227	0.5037
	Group means	-0.0301	-0.2041	-0.0477	0.0868	0.0050	0.0161	-0.0290

WTO Accessions Ongoing in 2005

		Voice and Accountability	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption	Country means
1	UZBEKISTAN	-0.1697	-0.3491	-0.0037	-0.6597	-0.0715	-0.1729	-0.2378
2	SAUDI ARABIA	-0.4067	-0.3234	0.0327	-0.4065	-0.5559	0.4741	-0.1976
3	BELARUS	-0.5147	-0.2760	0.2661	-0.7067	-0.2959	0.0190	-0.2514
4	VIETNAM	0.1006	-0.4362	-0.1348	0.0111	0.2195	-0.1373	-0.0628
5	KAZAKHSTAN	-0.2168	-0.0597	0.2028	-0.6146	-0.2444	-0.2521	-0.1975
6	AZERBAIJAN	-0.1015	-0.3877	0.0876	0.2999	-0.0146	0.0000	-0.0194
7	ALGERIA	0.5483	1.2005	0.5199	0.2735	0.0589	0.2089	0.4683
8	LEBANON	-0.2657	-0.2003	0.0689	0.0000	-0.0348	-0.1384	-0.0950
9	TONGA	-0.2656	.	-0.2592	-0.2527	0.2835	-0.0915	-0.1171
10	SEYCHELLES	-0.1403	.	0.2629	-0.0400	.	.	0.0275
11	VANUATU	0.2062	.	-0.3745	-0.2683	.	.	-0.1456
12	SAMOA	0.0244	0.0699	0.0121	0.4479	-0.4262	-0.1729	-0.0075
13	ANDORRA	-0.2122	.	.	.	.	.	-0.2122
	Group means	-0.1087	-0.0847	0.0567	-0.1597	-0.1081	-0.0263	-0.0718

Table 6
Difference-of-Means tests

Recent U.S. FTAs

		Voice and Accountability	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption	Country means
1	JORDAN	0.0474	0.0002	0.4748	0.0000	0.0024	0.1311	0.1093
2	MOROCCO	0.0008	0.3307	0.1312	0.0007	0.0159	0.6677	0.1912
3	GUATEMALA	0.9087	0.0002	0.0003	0.5726	0.0189	0.3221	0.3038
4	SINGAPORE	0.2166	0.3460	0.0139	0.0000	0.0000	0.1583	0.1225
5	HONDURAS	0.9563	0.0000	0.7098	0.5462	0.9962	0.7632	0.6619
6	NICARAGUA	0.3548	0.0163	0.9445	0.9971	0.6336	0.9058	0.6420
7	EL SALVADOR	0.9925	0.0000	0.9981	1.0000	0.8979	0.8268	0.7859
8	DOMINICAN REP.	0.8071	0.0192	0.3009	0.0492	0.0220	0.1195	0.2196
9	CHILE	1.0000	0.6494	0.1659	0.9986	0.0016	0.0267	0.4737
10	COSTA RICA	0.2236	0.1211	0.7147	0.0893	0.0294	0.0233	0.2002
	Group means	0.5508	0.1483	0.4454	0.4254	0.2618	0.3945	0.3710

WTO Accessions Completed During 1996-2004

		Voice and Accountability	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption	Country means
1	KYRGYZ REPUBLIC	0.5486	0.4406	0.7723	0.0016	0.5487	0.6010	0.4855
2	NEPAL	0.0000	0.1000	0.1090	0.1733	0.0000	0.3521	0.1224
3	OMAN	0.3424	0.9216	0.8041	0.7831	0.8358	0.9998	0.7811
4	CAMBODIA	0.0130	0.5962	0.0457	0.2071	0.0322	0.0399	0.1557
5	JORDAN	0.4157	0.1670	0.9363	1.0000	0.9999	0.9666	0.7476
6	ARMENIA	0.7749	0.0071	0.3448	1.0000	0.4288	0.4608	0.5027
7	GEORGIA	0.8778	0.5351	0.0378	0.9129	0.9573	0.2857	0.6011
8	MACEDONIA	0.0029	0.3484	0.8438	0.1812	0.1178	0.0254	0.2532
9	ALBANIA	0.9831	0.0029	0.0025	0.0706	0.0010	0.0619	0.1870
10	CROATIA	1.0000	0.8158	0.9916	0.9984	1.0000	0.9974	0.9672
	Group means	0.4958	0.3935	0.4888	0.5328	0.4921	0.4791	0.4803

WTO Accessions Ongoing in 2005

		Voice and Accountability	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption	Country means
1	UZBEKISTAN	0.0020	0.0051	0.4773	0.0000	0.0833	0.0016	0.0949
2	SAUDI ARABIA	0.0011	0.0202	0.5830	0.0056	0.0000	0.9998	0.2683
3	BELARUS	0.0010	0.2394	0.9463	0.0000	0.0311	.	0.2436
4	VIETNAM	0.7646	0.0003	0.1070	0.5366	0.9987	0.0186	0.4043
5	KAZAKHSTAN	0.0237	0.3734	0.9789	0.0000	0.0009	0.0425	0.2366
6	AZERBAIJAN	0.0295	0.0006	0.9253	1.0000	0.3833	0.5003	0.4732
7	ALGERIA	0.9999	1.0000	0.9996	0.9615	0.7348	0.9625	0.9430
8	LEBANON	0.0028	0.0721	0.7679	0.4999	0.2968	0.0617	0.2835
9	TONGA	.	.	0.2499	0.2651	0.7656	0.3782	0.4147
10	SEYCHELLES	.	.	.	.	.	.	#DIV/0!
11	VANUATU	.	.	.	.	.	.	#DIV/0!
12	SAMOA	0.5299	.	0.5219	0.9518	0.0288	0.2288	0.4522
13	ANDORRA	.	.	.	.	.	.	#DIV/0!
	Group means	0.2616	0.2139	0.6557	0.4220	0.3323	0.3549	0.3734

Bold test scores indicate significant improvement at p=90 percent or greater.

Bold italic test scores indicate significant deterioration at p=90 percent or greater.

No significance levels are reported for country means and group means.

Table 7
Summary of Significant Changes in Governance Indicators

<i>Better/Worse/ Unchanged</i>	Voice and Accountability	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
Recent U.S. FTAs	4/2/4	0/6/4	2/2/6	3/4/3	1/7/2	1/2/7
Recent WTO Accessions	2/3/5	1/3/6	2/3/5	3/2/5	3/3/4	3/2/5
Ongoing WTO Accessions	1/6/2	1/5/2	4/0/6	3/4/3	1/5/4	1/4/5

Table 8
Heritage Foundation scores

Completed U.S. FTA Accessions 1995-2005

Country	totpre	tradepre	fdipre	regpre	prightpre	diftot	diftrade	diffdi	difreg	difpright
Australia	1.900	2	2	2	2	1	-0.020	0	0	0
Bahrain	2.080	3	2	2	2	1	0.020	0	0	0
Chile	2.038	2	2	2	2	1	-0.025	0	0	1
Costa Rica	2.713	2	2	3	3	3	0.048	1	0	0
Dominican Republic	3.288	5	3	4	4	4	0.253	-1	0	0
El Salvador	2.350	2	2	2	2	3	-0.150	0	0	0
Guatemala	3.013	3	3	4	4	4	0.168	0	1	0
Honduras	3.188	3	3	4	4	3	0.243	0	1	0
Jordan	2.950	4	2	3	2	2	-0.100	0	0	0
Morocco	2.963	5	2	3	4	4	-0.032	0	0	0
Nicaragua	3.088	2	2	4	4	4	-0.188	0	1	0
Peru	2.830	4	2	4	4	4	-0.050	0	0	0
Singapore	1.588	1	1	1	1	1	0.025	0	0	0
Group means	2.614	2.923	2.154	2.923	2.692	0.015	0.000	0.231	0.077	0.077

Completed WTO Accessions 1995-2005

Country	totpre	tradepre	fdipre	regpre	prightpre	diftot	diftrade	diffdi	difreg	difpright
Albania	3.575	4	2	3	3	3	0.200	0	0	1
Armenia	3.688	3	4	4	4	3	-0.913	-2	-2	0
Cambodia	3.000	3	3	4	4	4	-0.325	-1	0	0
Croatia	3.525	3	3	4	3	3	-0.037	0	0	1
Georgia	3.775	3	3	4	4	4	0.025	0	0	0
Jordan	3.100	4	2	3	2	2	-0.138	0	0	0
Moldova	3.650	3	3	3	3	3	0.100	0	0	1
Mongolia	3.225	3	3	3	3	3	-0.200	-2	0	1
Nepal	3.788	5	4	4	3	3	-0.163	0	0	0
Oman	2.788	3	3	2	2	2	0.138	-1	1	1
Saudi Arabia	2.950	4	4	2	1	1	0.040	0	0	1
Group means	3.369	3.455	3.091	3.273	2.818	-0.116	-0.545	-0.091	0.364	0.545

Ongoing WTO Accessions with first Working Party meeting 1995 or later

Country	totpre	tradepre	fdipre	regpre	prightpre	diftot	diftrade	diffdi	difreg	difpright
Algeria	3.638	5	3	3	3	3	-0.148	0	0	0
Azerbaijan	3.575	3	4	4	4	4	-0.195	0	0	0
Belarus	3.950	5	4	3	3	3	0.040	-2	0	2
Bosnia and Herzegovina	3.300	3	4	5	5	5	-0.140	0	0	0
Cape Verde	2.860	5	3	2	3	3	-0.020	0	0	0
Laos	4.450	5	4	5	5	5	-0.120	-1	0	0
Lebanon	3.013	4	3	4	4	4	0.038	-1	1	0
Russia	3.550	4	2	2	3	3	0.010	-1	2	2
Tajikistan	4.150	3	4	4	4	4	-0.150	0	0	0
Ukraine	4.050	5	3	4	4	4	-0.840	-2	1	0
Uzbekistan	4.388	5	4	5	4	4	-0.288	-2	0	0
Vietnam	4.325	5	4	5	5	5	-0.495	0	0	0
Yemen	3.700	3	3	4	4	4	0.000	1	0	0
Group means	3.765	4.231	3.462	3.846	3.923	-0.178	-0.615	0.308	0.308	0.231

Totpre, diftot = initial level (change in) total score. Similarly, tradepre, diftrade = trade score , fdipre, diffdi = foreign investment , regpre, difreg = regulation , prightpre, difpright = property rights (prefix "dif" = change in)

Appendix

Timeline of internal and external events in Ecuador

- 1979 A period of civilian rule begins under a new Constitution.
- 1992 Ecuador joins Andean Community, lowering its peak tariff from 290 percent to 27 percent, excluding vehicles, and unifies the exchange rate.
- Sept. 1992 Ecuador applies to join WTO.
- July 1993 First of 9 meetings of Ecuador's WTO Working Party.
- 1994 Andean Pact Common External Tariff is introduced in a range of 5-20 percent, with duty-free trade inside the pact.
- 1995 Export and import procedures are transferred from the Central Bank to private banks, and simplified.
- July 1995 Ecuador's final WTO Working Party completed.
- January 1996 Ecuador accedes to WTO.
- 1996 The populist Abdalá Bucaram is elected President.
- Feb. 1997 Bucaram is ousted by Congress on grounds of "mental incapacity" and is succeeded for the rest of his term by congressional leader Fabian Alarcón.
- July 1998 Jamil Mahuad, the Harvard-trained former mayor of Quito, is elected President.
- 1998 Constitutional reform, replacing 1979 Constitution. The new Constitution moderately strengthens the President vis-à-vis Congress by abolishing midterm elections and the power of Congress to fire ministers.
- 1998 Congress passes IPR legislation in conformity with WTO TRIPs, and imposes a 4 percent import surcharge for fiscal reasons.
- Nov. 1998 Deposit Guaranty Agency is charged with cleaning up the financial system. The government issues \$1.5 billion of special purpose bonds for this purpose. By Aug. 1999 70 percent of Ecuadorian banking is under state control.
- 1999 Import surcharge increased to 10 percent.
- Sept.-Oct. 1999 Ecuador defaults on Brady Bond coupons and Eurobond coupons.
- Jan. 2000 10,000 indigenous protesters occupy Parliament and oust President Jamil Mahuad. Gustavo Noboa becomes president after the intervention of the National Security Council.

March 2000. Law for Economic Modernization sets up the legal framework for dollarization.

2000 Import surcharges lifted on specific items.

August 2000 Ecuador restructures its debt, reducing Brady Bonds and Eurobonds by 40 percent and issuing two new global bonds to its creditors.

Sept. 2000 Dollarization is completed.

2001-03 A private foreign consortium builds the OCP pipeline to carry heavy crude from the Amazon region to the coast.

March 2001 All import surcharges removed.

Dec. 2001 Ecuador completes its first IMF standby arrangement since the 1980s

June 2002 Finance minister Carlos Julio Emmanuel resigns amidst a corruption scandal, weakening the Noboa government.

2002 Tariffs on a variety of inputs used by exporters temporarily lifted.

2002 Fiscal Responsibility and Transparency law is passed, with the intent of capturing pipeline revenue and using it to retire foreign debt and replenish the social security fund, as well as capping real government spending growth to 3.5 percent per year. This is undermined by public-sector pay rises and legislative rejection of key components of the plan. Attempts to privatize electricity and telecoms fail.

Nov. 2002 Former army colonel Lucio Gutiérrez wins second round of presidential election.

March 2003 IMF approves a new 12-month \$205 m. standby arrangement.

2003 Gutiérrez administration re-imposes input tariffs that were lifted under Noboa.

Aug. 2003. Ruling coalition splits. The leftist Pachakútik party, after opposing several government economic policies, is dismissed by Gutiérrez. Legislation stalls.

Nov. 2003 USTR declares to Congress its intent to open FTA negotiations with Colombia, Peru, Ecuador, and Bolivia.

March 2004 USTR announces that negotiations with Colombia “and possibly other countries” will begin in May.

April 2004 IMF arrangement expires with most available funding undisbursed.

May 2004 Andean FTA negotiations begin with Colombia, Peru, and Ecuador after “the resolution of certain issues” with the latter two. USTR announces that Peru and Ecuador will be included in a multicountry OPIC microfinancing initiative worth \$54 million.

June 2004 USTR Zoellick visits Peru and Ecuador.

April 2005 Gutiérrez ousts Supreme Court. Thousands of Pentecostalist Indians march on Quito. Congress ousts Gutiérrez and replaces him with Vice President Alfredo Palacio Gonzales. The United States recognizes the Gonzales government after receiving assurances that all agreements will continue.

July 2005 Venezuelan President Hugo Chavez offers to refine Ecuadorian crude in Venezuelan refineries after buying a large quantity of Ecuador’s debt.

August 2005 Oilfield workers strike. Chavez offers to provide Ecuador with up to 88,000 bpd to meet its export commitments.

Sept. 2005 Ecuador plans to extend the negotiating period with the United States on a bilateral free trade agreement (FTA) until November despite a decision by Colombia and Peru to conclude negotiations in October, Ecuador’s Minister of Foreign Commerce Jorge Illingworth said Sept. 22. Illingworth said that, though the three countries had been coordinating their negotiating positions, Ecuador never agreed to the October deadline both Colombia and Peru had set to end negotiations. He said he expects the FTA to be signed in April 2006, the day after the preferential trade agreement now in place with the U.S. expires Ecuador.

Nov. 2005 President Palacio announces postponement of constitutional referendum scheduled in December until Jan. 6.

Final round of Andean FTA negotiations Nov. 14-22. Ecuador’s chief negotiator announces an expected signing by Dec. 6.