

## HOW IMPORTANT IS MEMBERSHIP TO THE WORLD TRADE ORGANIZATION ECONOMICLY?

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**Abstract:** In this article, the impact of WTO accession on key macroeconomic indicators: economic growth, export, import, final consumption expenditures of government and households, and direct impact on the economies of the South Caucasus countries. The inflow of foreign direct investment for 1994-2012 was studied. The impact of the time series on the economy was considered on the basis of a multiplication regression model and a panel analysis of data for Georgia, Armenia and Azerbaijan. That is, the results of the study will affect countries in WTO membership in various sectors that depend on the structure of the economy. This will have a significant impact on economic growth, exports and imports. However, the World Trade Organization does not strictly require the inflow of foreign direct investment. Membership leads to an increase in government final consumption expenditures and a significant reduction in household consumption expenditures.

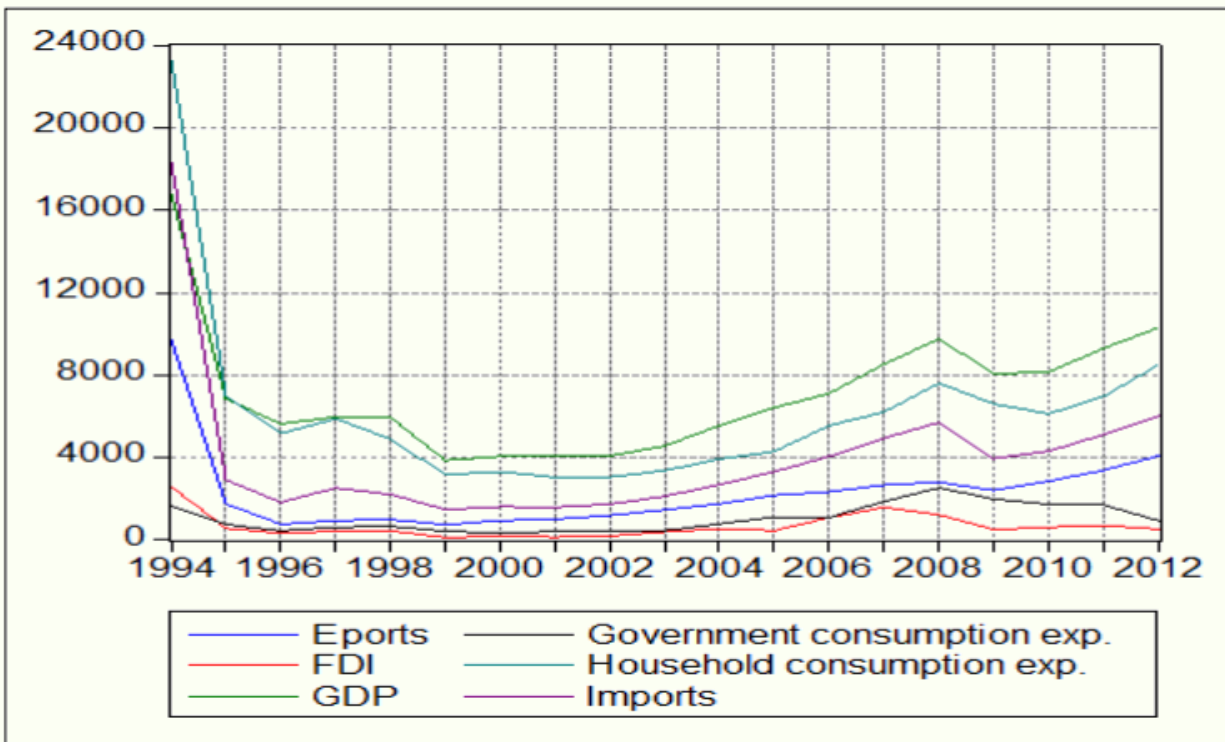
**Key words:** WTO membership; Economic growth; International trade; Consumption; Foreign investment; the economy of the South Caucasus.

All data used in this study are from the World Bank, World Development Indicators database. The annual data obtained were measured in “dollar” values for all relevant years, but converted to real value by dividing each country’s consumer price index (CPI), with 2005 taken as the base year. Only the amount of all foreign direct investment inflows in all subject countries was equal to the percentage of GDP and multiplied by the real value of GDP for each year and converted to US dollars.

The empirical analysis of macroeconomic indicators before and after the accession of countries to the WTO was transferred to the graphical form. Georgia joined the World Trade Organization in 2000. Armenia joined the WTO after 2003. Despite the start of membership talks in 1997, Azerbaijan still does not have the right to join the WTO.

Taking 2005 as the key year, the real values of the macroeconomic indicators obtained have a changing trend for all countries in 1994-1995. For Georgia, this downward trend continued until 1999 and has remained almost the same for the past three years. This is shown in the figure below. No significant changes were observed in the first two years after accession to the WTO. Only real exports and imports tend to grow slightly. This year, real GDP tends to grow faster than the final consumption of households, and this can be seen in expenditures and imports.

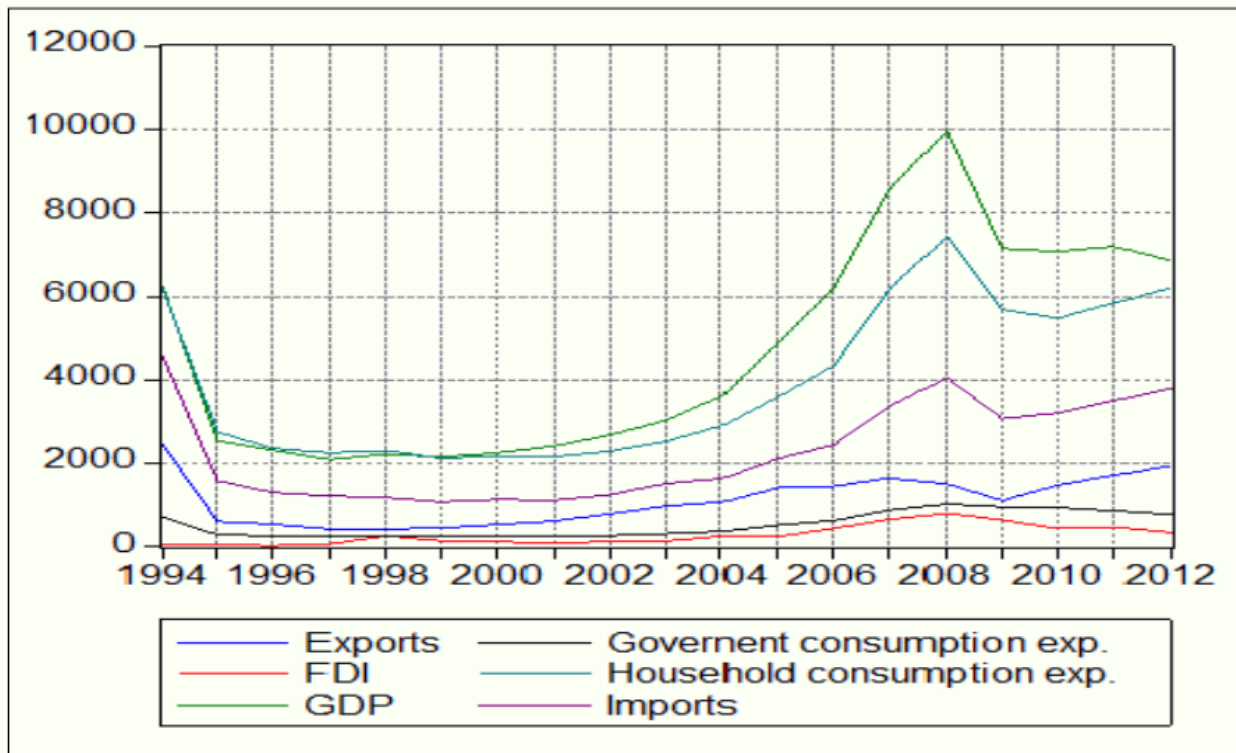
**The first graphic, Georgia before and after accession to the WTO (2005, USD 1 million)**



At the same time, the growth of real export volume is significantly less than the change in import volume. The net flow of financial investments remained virtually unchanged until 2005. Imports have been rising sharply since the 2005 grace period for Georgia expired. The growth trend continued until the global financial crisis and declined sharply in 2008-2009. After a one-year recovery period, all of these figures are moving upwards, government final consumption expenditures are declining, and foreign direct investment inflows have remained virtually unchanged. There is a significant increase in real imports and real exports before and after accession to the World Trade Organization. Especially after the expiration of the concession, the trade deficit and imports observed in all years increased significantly compared to exports to Georgia.

After a sharp decline in the Armenian economy in 1994-1995, stability was observed in all trends until 2002. After 2002, the final consumption expenditures of Armenia's GDP and households continued to rise steadily until 2008. Since Armenia joined the WTO in 2003, the trend has been much higher than in previous years on these two indicators. However, the main indicators directly related to the WTO - real imports and exports - did not have a significant impact. Real imports increased until 2008, but real exports were virtually unaffected. As a result of the 2008 global financial crisis, all four indicators fell sharply.

**The second graphic, Armenia before and after accession to the WTO (2005, million US dollars)**



Annual variation in government consumer spending and GDP growth is positive and statistically significant, but the impact on import growth is negative and statistically at 5%. The regression results of the time series models for Georgia show that, taking into account other factors on a regular basis, Georgia's exports and government final consumption expenditures increased by 10.1% and 6.5%, respectively, after accession to the WTO. In addition, the positive impact of WTO membership on the annual variability of Georgia's GDP growth was identified. Thus, after joining the WTO, the annual change in Georgia's GDP was on average 7.3% higher than in previous years. This means that the ratio is negative for imports, which means that the growth in Georgian imports was 9.6% less in the years of membership before membership. Also, the inflow rates of foreign direct investment and the final consumption expenditures of households are positive, but not statistically significant.

Thus, in conclusion, I can say that for Georgia and Armenia, WTO membership has had a positive impact on macroeconomic performance and has achieved development. Of course, this is not economically significant, although it will have a negative impact on a number of indicators. This membership was more beneficial for Armenia.

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