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Doha Round of WTO Negotiations: Prospects and Repercussions for the Russian Federation.

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Abstract

Russia has negotiated on World Trade Organization (WTO) accession since 1995. The course of negotiations, demands of various countries participating in the process, "pros" and "cons" of future Russian membership have been widely discussed in domestic as well as international literature already for several years. Substantially less attention has been given in these discussions to controversial developments taking place in the WTO itself within the framework of so called Doha round. The author assesses Russian prospects from the point of view of both threats and opportunities presented by the current course of Doha round.

***Keywords*:** Russia, World Trade Organization, Doha Development Agenda, International trading system
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Introduction

Launch of Doha round

The modern stage in performance of the international trading system reckons time from the WTO's Fourth Ministerial Conference held in Doha (Qatar) in November 2001. The conference announced beginning of a new round of negotiations. Ministerial Declaration (Doha Declaration) affirmed the necessity to treat foreign trade in close connection with many various aspects of contemporary society. Nevertheless, the main emphasis was made on just one issue, namely development. "International trade – claimed Doha Declaration – can play a major role in the promotion of economic development and the alleviation of poverty. We recognize the need for all our peoples to benefit from the increased opportunities and welfare gains that the multilateral trading system generates"[1]. Aforementioned focus was quite logical. In contrast to preceding GATT the majority of WTO member-states are developing and least developed countries. For them the problem of catching up with prosperous nations was really the key issue. Meanwhile, no serious progress was recorded in this field during last decade of previous century. More than that, in some regions situation even deteriorated.

In terms of their impact on Russia Fourth Ministerial Conference in general, DDA in particular were controversial enough. On the one hand, they correspond with certain interests of the country:

- Firstly, the problem of economic development at that period of time was at the very top of Russian national priorities. Indeed, for the most part of 1990s the country experienced severe economic crisis accompanied by impressive growth of foreign trade. During first years of transition inequality increased tremendously, and more than 20% of the population lived below poverty line;
- Secondly, focus on development provided extra opportunity to promote political and economic collaboration with large amount of developing countries. It is worth mentioning that Soviet Union had constantly positioned itself internationally as an ally of the "third world". Russia to some extent

[1] Doha Declaration. World Trade Organization. 2003. P.2.

inherited this image with certain chances to benefit from it;
- Thirdly, Doha Ministerial Conference finalized the process of Chinese accession to the WTO. After that Russia became the largest trading nation on the globe outside of the organization. The latter under the circumstances had more possibilities as well as incentives to complete negotiations with the country;
- Fourthly, according to Ministerial Declaration, negotiations on DDA "shall be open" to "states… currently in the process of accession… for whom an accession working party is established"[2]. This provision not merely helped Russia to be well-informed with respect to the course of the talks. It also allowed the country to participate in discussions.

On the other hand, mandate of declared round both in terms of timetable and the content made Russian task more complicated. The country had serious reasons to become a member of WTO prior to completion of DDA. Otherwise Russia would be challenged by the whole set of new requirements to comply with. This time pressure diminished Russian bargaining power.

Cancún Failure

The WTO's Fifth Ministerial Conference took place in September 2003 in Cancún (Mexico) and appeared to be a total failure. Cancún had been initially designed as an important interim event for the implementation of DDA. Nevertheless, the participants failed even to finalize the discussion in generally acceptable form, say nothing of an agreement on any issues under negotiation. Just after completion of the conference representatives of Russian business and academic communities as well as mass media-men started to discuss its results. They mostly focused possible impact of Cancún on prospects of Russia's accession to the WTO. Opinions differed, but ultimately two opposite perspectives became evident.

The proponents of the first claimed that failure of the summit made negotiation process easier for RF. On the one hand, being severely criticized internationally the WTO badly needed certain proof of its positive development and general sustainability. Russian accession could provide good opportunity for that. On the other hand, Cancún substantially diminished the chances to fulfill DDA according to the initial schedule. Hence both time pressure on the country and the risk of new requirements became less.

The adherents of the second perspective tended to argue that Russian membership and progress in implementation of DDA just should not be put on the same plane. In the situation when the mere survival of the WTO was openly and seriously challenged, successful completion of any individual accession negotiations could not compensate the damage caused by a failure of major multilateral talks. Under the circumstances scarcity of "negotiation resources" (namely time and people able to negotiate) had to stimulate their relocation in favour of Doha round. Being dramatically challenged by "Cancún failure" the WTO member-states decided to take a break. Roughly three months were occupied by the whole set of various bilateral and multilateral consultations. Then the WTO General Council meeting on 15-16 December 2003 resulted in official announcement to resume the negotiating process.

"July package"

During more than half-a-year round of talks negotiating parties managed to agree upon the document approved by the WTO General Council "shortly after midnight on 1 August 2004"[3]. It became known as either "August" or "July package"[4] and stipulated major issues to be negotiated as well as some key parameters of future agreements. In addition schedule of negotiations was extended after 1 January 2005. The structure of "July package" reflects the desire to find an exit from Cancún deadlock. The major disagreement in Mexico has dealt with the trade in agricultural product. This is the issue, which "July package" primarily targets. All three "main pillars" of agricultural protectionism, namely measures of domestic support, export competition and market access are covered.

With regard to domestic support "July package" refers to the goal set by Doha Declaration – "substantial reduction in trade-distorting domestic support". At the same time, so called tiered formula should be applied. According to this principle "Members having higher levels of trade-distorting domestic support will make greater overall reductions in order to achieve a harmonizing result". In other words, developing countries have and option of less radical liberalization[5]. In case of export competition negotiations should to aim at gradual elimination of all forms of export subsidies. Negotiations on market access should provide its "substantial improvements". This relates to the reductions of import tariffs on agricultural products introduced by all the WTO member-states, except least-developed countries. Tiered formula taking into account different tariff structures will be used here as in case of domestic support reduction.

Along with agriculture "July package" also provides framework for establishing modalities in NAMA, trade in services and trade facilitation. Thus, three out of four Singapore issues have been excluded from the agenda.

[2] Doha Declaration. World Trade Organization. 2003. P.20-21.

[3] *Peter Gallagher* The First Ten Years of the WTO: 1995-2005. Cambridge Univ. Press. 2005. P.123.

[4] WT/L/579 www.wto.org. Further quotations are derived from the same source.

[5] Thus, interests of developing countries are taken under consideration and protected. Meanwhile, nowadays this is an extremely heterogeneous group. Benefits of trade liberalization for many least-developed countries are, according to the estimates, either minor or totally absent.

This change could be essentially perceived as a concession in favour of developing countries. For a large majority of them relationship between trade and investment, interaction between trade and competition policy, as well as transparency in government procurement are much less significant than already negotiated and yet not settled issues.

How does “July package” relate to the interests and concerns of Russian Federation? Modalities in *Agriculture* assume more radical liberalization for developed countries. Russia might benefit from that since substantial part of its agricultural import[6] originates from these countries and among them from EU. The latter is notorious for a high level of agricultural protectionism in general, large export subsidies in particular. Several points should be mentioned in case of *NAMA*. Firstly, general tariff reduction might look reasonable for Russia only under the conditions of rising custom duties collection level. Majority of experts tend to argue that at the moment due to a widespread practice of tax avoidance and evasion actual value of respective revenues accumulated in the Russian budget correspond with much lower tariff rate than officially set one. The situation is in a way similar to that being described by a famous Laffer curve.

Secondly, “July package” calls for either reduction or total elimination of tariff peaks and reduction of tariff escalation. In comparison with many other countries both instruments are used by Russia relatively minor.

Hence RF, on the one hand, gets an additional argument for further negotiations, on the other hand, loses an opportunity (at least hypothetical) to apply these tools to protect national economy.

Thirdly, “July package” Annex defines that while negotiating tariff reduction schedule “the reference period for import data shall be 1999-2001”. This might be an additional disadvantage for Russia due to the impressive growth of its import. Indeed, according to the official statistics, in 2005 Russian merchandise import equaled US$125.1 billion. It exceeded the level of 2001 2.3 times and that of 1999 – 3.2 times.

Fourthly, “July package” calls “to grant on an autonomous basis duty-free and quota-free access for non-agricultural product originating from least-developed countries”. One might argue that it is would be no serious problem for Russia. It already doesn’t apply import duties to aforementioned goods. More than that, their share in the overall national import is an extremely small[7].

Fifthly, “July package” admits the possibility to take under consideration “challenges that may be faced” by the economies “at present highly dependent on tariff revenue”. This directly relates to Russia as Table 1 clearly illustrates.

Table 1: Share of custom duties in RF federal budget revenues

	Custom duties		Import duties		Export duties	
	in % of federal budget revenues	in % of GDP	in % of federal budget revenues	in % of GDP	in % of federal budget revenues	in % of GDP
2000	20.4	3.3	--	--	--	--
2001	20.9	3.7	--	--	--	--
2002	17.3	3.0	--	--	--	--
2003	16.4	2.6	--	--	--	--
2004	19.4	3.5	6.6	1.2	12.8	2.3
2005	26.1	4.6	7.5	1.3	18.6	3.3

[6] In 2003 Russia’s import of food and agricultural raw materials (excluding textile) equaled to US$12,055 million and constituted 21,1% of the total import. (*Rossijskij statisticheskii ezhegodnik 2004*. Moscow. 2004.P.655)

[7] National statistical abstract includes in the list of selected trading partners of Russia only two least-developed countries, namely Afghanistan and Guinea. In 2003 their total export to RF (including agricultural products) equaled to US$85.3 million and made up 0.2% of Russian merchandise import.

"July package" Annex C deals with ***Trade in Services***. It is relatively short and contains no specific provisions either with respect to individual sectors or in general. One might argue that this type of conciseness corresponds with Russian interests. The point results from a relatively large number of various commitments the country is going to accept as a part of "accession deal".

Exclusion from the agenda three out of four ***Singapore issues*** (relationship between trade and investment, interaction between trade and competition policy, transparency in government procurement) is relevant to Russia in several aspects. With regard to ***investment*** it probably loses. On the one hand, the country is interested to facilitate foreign investments (first of all FDI) inflow. On the other hand, national companies become increasingly involved in export of capital. Under the circumstances abortive agreement might help to improve domestic investment climate as well as to provide both additional opportunities for Russian investors abroad and extra point of contiguity in interaction with developed countries.

In case of ***trade facilitation*** negotiations should focus on three articles of GATT 1994, namely Article V (Freedom of Transit), Article VIII (Fees and Formalities connected with Importation and Exportation) and Article X (Publication and Administration of Trade Regulations). Here RF custom administration up till now doesn't comply with Article VIII clearly stipulating that all fees and charges of whatever character imposed on importation or exportation shall be limited in amount to the approximate cost of services rendered. In contrast to that Russia predominantly calculates export and import related payments on *ad valorem* basis. In other words, the same service is priced differently depending upon a value of cargo, which crosses the border.

Hong Kong Ministerial and subsequent negotiations

Negotiations re-launched by "July package" almost didn't move ahead. At the end of July 2005 Chairman of the WTO Trade Negotiations Committee (TNC) claimed in his Report to the General Council: "We have made some progress … but less, perhaps much less, than we wished"[1]. This clearly challenged general prospects of the organization. More than that, the WTO's Sixth Ministerial Conference, which should have taken place in December 2005 in Hong Kong was seriously threatened. Nearly at the very last moment intensive consultations resulted in a draft to be approved.

Hong Kong Ministerial Declaration starts with a definite support of principal decisions made in Doha as well as "July package" provisions[2]. At the same time while reading the document one can't avoid noticing a lot of references on "remaining gap in positions", no clear signs of "any discernible convergence", "fundamental divergence", "lack of agreement", etc. In spite of that the participants of the conference managed to agree upon several issues.

In case of ***agriculture*** the decision was made in favour of "reductions in Final Bound Total AMS and… overall cut in trade-distorting domestic support" established in a way that would demand more radical liberalization from developed countries with higher current level of protectionism. In substantially more specific manner paragraph 6 of Hong Kong Declaration stipulates: "the parallel elimination of all forms of export subsidies and disciplines on all export measures with equivalent effect to be completed by the end of 2013".

In addition to already discussed implications of DDA agricultural dimension for Russian Federation one could add that for last several years the country tends to increase its agricultural export (mostly grain). In volume export of grain increased in 2003 more than eight-fold in comparison with 2000. In value it equaled to US$1,163 million[3]. Under the circumstances trade liberalization might reduce the barriers hampering delivery of Russian agricultural products.

With respect to ***NAMA*** discussions resulted in adoption of so called Swiss Formula for tariff reduction. This decision obviously has helped to make negotiations more focused. Nevertheless, even after that two versions of formula remain "on the table". First one advocated by USA is often called Swiss Formula with Dual Coefficients. Second option proposed by Argentina, Brazil and India is constituted by a Swiss Formula incorporating each country's tariff average.

Some experts tend to argue that both variants of Swiss formula (in contrast to Uruguay round one) doesn't correspond with Russian national interests. Tariff harmonization and contraction of average tariff rates provide little opportunities for the protection of sensitive products/industries. In author of the present paper opinion the approach reflects only a part of the story. Indeed, especially in case of Swiss Formula with Dual Coefficients Russia might expect substantial improvement of foreign market access for its manufacturing industries. Taking under consideration current commodity composition of national merchandise export strongly biased in favour of raw materials, possible gains of this improvement are too significant to be ignored.

Services negotiations are mentioned in Hong Kong Ministerial Declaration quite briefly. Nevertheless, at least one comment is worth making. Both the main text and Annex C refer to liberalization concerning so called modes of supply. In particular, mode 4 – "presence of natural persons" might challenge Russian interests. In the Far East region of the country illustrates natives of neighboring overpopulated China are already quite

[1] TN/C/5. www.wto.org

[2] Here and below Hong Kong Ministerial Declaration is quoted according to WT/MIN(05)/DEC. www.wto.org

[3] *Rossijskii statisticheskii ezhegodnik 2004*. Moscow. 2004.P.657.

active in many sectors such as construction, retailing, and public catering. According to many experts, any further steps towards more liberal migration policy could result in a substantial additional labour inflow from “Eastern Giant”. Taking under consideration current demographic trends this would generate serious danger to social as well as political stability in the region.

For the proponents of existing multilateral trading system the main message sent by WTO’s Sixth Ministerial Conference was quite clear – in order to confine DDA to already revised schedule negotiations had to be, on the one hand, intensified, on another hand, supported by necessary flexibility as well as sincere willingness to look for compromise and make mutual concessions. While the former took place at different levels and in various formats, the latter was clearly missing. Dramatic outcome ensued at the eve of 31 July 2006 deadline set in Hong Kong for submission of “comprehensive draft Schedules based on … modalities” in two key issues – Agriculture and NAMA. On July 27 2006 the WTO Director-General Pascal Lamy claimed in his report to General Council: “…I recommended that the only course of action available was to suspend the negotiations across the Round as a whole to enable the serious reflection by participants which was clearly necessary”[4]. The recommendation was supported by the General Council at its meeting on 27-28 July 2006. As a result DDA has gone into “deep freeze”.

Conclusion

Taking under consideration both previous course and the prospects of DDA one is tempted to ask, whether Russia really needs the WTO membership? Wouldn’t it be more rational to freeze negotiation on accession and to use a resulting break in order, on the one hand, to check viability of organization, on the other hand, to raise international competitiveness of several key sensitive sectors of national economy?

A certain amount of Russian economists strongly advocate aforementioned scenario. An author of the present paper is inclined to disagree. The main reasons are the following.

full-scale collapse of the WTO would result in chaos damaging all participants of international trade; first and foremost less developed ones. Of course, currently existing system is far from being perfect. Nevertheless, “no rules at all” alternative clearly fits a pattern of “lose-lose game”. Under the circumstances Russia might help to avoid “first worst” option by its accession;

WTO evolves as an international institution. At least some of ongoing changes are potentially beneficial to Russia. This relates in particular to certain trend towards democratization recorded by many observers. One could mark important role of “New Quad”, active position taken by many developing countries, references to the interests of newly acceding members; substantial part of commitments made by Russia in the process of accession negotiations does not contradict strategic interests of the country. Measures aimed at better custom administration, comprehensive protection of intellectual property rights as well as other steps have to be taken regardless of DDA. At the same time, WTO accession would generate yet additional pressure to implement them.

[4] www.wto.org

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The Impact of World Trade Organization Membership on the Bulgarian Economy

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Abstract

This paper presents an attempt to summarize the impact of WTO membership on the Bulgarian economy. Such an aim is not fully achievable as in the 1990s WTO membership coincided in time with many and much more profound changes in the national economic and social structures and patterns. Therefore it is very difficult to distinguish and frame only the impact of joining the WTO. Nevertheless the Bulgarian experience could be interesting as the country joined the WTO in a moment when its economy was in the deepest of crisis and its industry at the pick of its non-competitiveness. As this situation is reality for many other countries that could join the organization in future this experience could be a valuable example.

Keywords: WTO membership, Bulgaria, socialism, accession, economics

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Introduction

Just as the other former socialist countries in Central and Eastern Europe, in the last 16 years Bulgaria undertook a fundamental transformation of its political and economic system. The country joined the International Monetary Fund and the World Bank in 1990. Furthermore Bulgaria is a NATO member since 2004 and joined the European Union in 2007. After a rocky beginning and initially poorly designed and even more poorly implemented reforms during the last 7 years Bulgaria is one of Europe's fastest growing economies.

Bulgaria joined the WTO as of 1 December 1996, after the Protocol for the Accession to the Marrakech Agreement came into force. Paradoxically for a rules based organization, the World Trade Organization /WTO/ has no clear rules for the "price" of membership. Article XII of the Marrakesh Agreement, the legal instrument covering the WTO accession process, merely states that new members may join the organization "on terms to be agreed." This sparse guidance leaves the door wide open to encompass an expedited hassle-free accession process and a drawn-out, decade-long, and burdensome accession experience (*Evenett & Braga, 2005*).

Some experts argue that WTO accession can lead to economic growth in the applicant countries. As main reasons they point the possible improvements in domestic policies, improved access to state-of-the-art machinery imports and subsequent productivity increases, as well as more competition and lower prices in the domestic markets of applicant countries (*Langhammer & Lucke, 1999*). In addition the general idea is that more predictable access to foreign markets will result in higher exports. Another strong argument is that WTO membership enables higher private capital inflows into sectors newly opened to foreign investment economic basis, furthermore that often WTO membership could be used as a seal of approval recognized by the international business community. Economists would also point to the benefits that flow from better foreign access to the acceding nation's markets, specifically in terms of lower prices for and a greater variety of imports. By binding national tariffs, committing to eliminate quotas on imports, and reforming other state measures, the credibility of an acceding nation's policies can be enhanced and hence the private sector faces less uncertainty (*Ibid.*).

Their opponents have also some reasonable argumentation and evidence to support it. They argue that free trade and open markets will contribute for further impoverishment of the poor countries and enrichment of the rich countries. Thus trade barriers are needed to compensate and balance the differences between countries and their respective level of economic development and competitiveness. A particularly strong argument is that countries and regions with non-competitive industrial sectors are quite vulnerable as an increased inflow of often cheaper products could have a killing effect. Furthermore for such countries and regions benefiting from the free access to new markets could have marginal value due to considerably stronger market competition, matured markets difficult for newcomers entry and last but not least lack of considerable experience among the would be exporters (*NCRD, 2004*). In addition, foreign barriers faced by some exporters in countries that joined the WTO may have in fact changed little after accession. Exporters could be either unaware or unable to take advantage of improved market access abroad. This could be due to a lack of information, to expensive and inefficient infrastructure in the acceding country, or a lack of experience in successfully shipping goods abroad (*Evenett & Braga, 2005*).

This paper presents an attempt to summarize the impact of WTO membership on the Bulgarian economy. Such an aim is not fully achievable as in the 1990s WTO membership coincided in time with many and much more profound changes in the national economic and social structures and patterns. Therefore it is very difficult to distinguish and frame only the impact of joining the WTO. Nevertheless the Bulgarian experience could be interesting as the country joined the WTO in a moment when its economy was in the deepest of crisis and its industry at the pick of its non-competitiveness. As this situation is reality for many other countries that could join the organization in future this experience could be a valuable example.

The paper is built in two parts. The first part deals with the policy measures the Bulgarian authorities undertook in order to accommodate the WTO requirements for a membership. The second part focuses on the perceived economic impact of WTO membership in four key sectors: investments, agriculture, industry, services and trade. Finally conclusions are made complemented with some recommendations that could be considered by policy makers at various levels.

2. Joining the WTO: Bulgarian commitments and trade liberalization measures

2.1. The Commitments of Bulgaria

Bulgaria acceded to the WTO on 1 December 1996, and has accepted all multilateral and plurilateral agreements except the Agreement on Government Procurement, where it is an observer and where consultations on its membership are ongoing. It grants at least most-favored-nation treatment to all WTO Members. On accession, it bound all its tariffs under GATT 1994, and has since reduced its bound rates in accordance with its Schedule of Concession and Commitments; in some cases it has undertaken autonomous liberalization beyond that required under its Schedule. During its WTO accession process, Bulgaria committed itself to bringing the rest of its domestic legislation into compliance with the Trade-Related Aspects of Intellectual Property Rights (TRIPS). It has undertaken extensive reforms to its national laws with this aim, and to harmonize them with EU legislation.

For many applicant countries that are usually undergoing a systemic transformation of their economies a WTO membership is a fast way to benchmark and implement a fully developed and well-established set of norms. The idea is that the need for transparency and for the effective implementation of written norms enforced by the scrutiny of current WTO members, promote the rule of law and the evolution of an independent judicial system (*Langhammer & Lucke, 1999*). The commitments taken by the new members joining WTO vary a lot depending on the situation of the country, including such factors as the extent to which its economy is developed and market oriented. By the WTO accession mechanism commitments on export subsidies and domestic support are based on the members' use of such support in recent years prior to the accession, and tariff commitments are based on recent applied rates.

Interestingly enough the Bulgarian authorities used 1986-88 data for commitments on domestic support and 1986-90 on export subsidies. The main assumption supporting such a choice was that in 1989 - 1996 the Bulgarian economy was in a deep depression so these years could have not served as a proper benchmark. As a result Bulgaria stands out as having the largest Total Aggregate Measurement of Support /AMS / commitment among eighteen New Members (*Brink, 2003)*. This results from Bulgaria's 1986-88 base period for total AMS, when farm support was high. If the base period had been in the early 1990s, a much lower total AMS commitment could have been applied.

The negative effect of such strategy was that Bulgaria joined WTO with a status of developed country even if it current economic and social situation would have undoubtedly characterize the country as a developing one. Here one must consider the political significance of joining an internationally recognized organization such as the WTO and receiving the status of a developed country. Against the moral bankruptcy and managerial incompetence of several consecutive governments the WTO membership was perceived as a considerable achievement aiming to boost the self-confidence of the Bulgarian people in general and the political elite in particular. Despite economic insufficiency and the negative social impact of liberalization, the Bulgarian government pursued the WTO agenda as the government considered it as a part of the country's effort to be accepted into the international community. As might be seen in Table 1 in terms of ratified trade treaties of 205 major multilateral agreements covering contracts, customs, dispute resolution, environment and products, finance, illicit trade, intellectual property, investment, transport, treaty law and WTO agreements as of 1 January 2005 Bulgaria is quite up in the ranking.

Table 1: Ranking according to trade treaties signed

Country name	Rank by score	Score	Rank by ratifications	Number of ratifications	Ratification rate (%)
France	1	69.96	3	143	69.76
Italy	2	69.74	2	145	70.73
Netherlands	3	68.76	1	148	72.20
Spain	4	68.06	6	136	66.34
Sweden	5	67.00	4	140	68.29
Hungary	6	66.25	7	135	65.85
Germany	7	66.03	5	138	67.32
Switzerland	8	64.28	11	133	64.88
Denmark	9	63.81	7	135	65.85
Finland	10	63.72	7	135	65.85
Slovenia	11	63.71	17	125	60.98
Belgium	12	63.31	7	135	65.85
Slovakia	13	63.05	22	119	58.05
Norway	14	62.82	12	131	63.90
Romania	15	62.47	21	120	58.54
Poland	16	62.35	13	130	63.41
Czech Republic	17	62.32	18	124	60.49
United Kingdom	18	61.21	13	130	63.41
Greece	19	61.20	15	126	61.46
Portugal	20	60.84	15	126	61.46
Bulgaria	21	59.69	23	117	57.07
Croatia	22	59.11	18	124	60.49
Latvia	23	59.01	34	99	48.29
Luxembourg	24	58.98	23	117	57.07
Cyprus	25	58.45	25	114	55.61
Austria	26	58.29	20	122	59.51
Lithuania	27	57.73	34	99	48.29
Japan	28	54.66	26	113	55.12
Estonia	29	53.95	40	93	45.37
Ireland	30	53.43	27	111	54.15
United States of America	31	53.22	34	99	48.29

Source (www.legacarta.net)

2.2. Trade liberalization in action

Bulgarian foreign trade prior to political and economic reform of 1990-1991 had the highest CMEA (Council of Mutual Economic Assistance) share in comparison to other CMEA member countries. Also, Bulgaria (along with Czechoslovakia) was the last to reduce CMEA-export in 1989, while others started as early as in 1986. Another peculiarity was that Bulgaria exported mostly to the ex-Soviet Union while others traded more significant volumes with one another. In the first years after both CMEA and state monopoly on foreign trade were abolished, it was difficult to impose clear market rules. Facing the challenge of deregulation and abandoning the socialist planning system, the Bulgarian government took too long to find a form of regulation that would stimulate competition. As a result, rather than being able to thrive in a genuine market economy, Bulgarian enterprises have been exposed to the chaos of a hazardous post-communist market (*Sheytanov, 1996*). Joining the WTO as with the status of a developed country effectively meant that structural reforms in Bulgaria had to be conducted in a framework of fully liberalized markets and exposure to strong international competition. This was partly because prior negotiations had been conducted on the basis of much higher economic indicators than Bulgaria was in fact enjoying at the date of joining. For example industrial production volume indices in Bulgaria in 1998 were 87 (the basis for 1995=100), and by end of 2001: 81,8. In all other countries - Czech Republic, Hungary, Poland, Romania and Slovenia, this figure was over 100 and was steadily increasing from 1998 until 2001 (*Messerlin, 1996*).

The WTO compliant tariff policies in general and their consequences for trade volumes and particularly for imports depend very much on the fact to what extent is the national customs an efficient, non corrupted and reliable institution. The problem that inefficient customs has much greater impact on national economy than the perceived and expected impact of WTO membership is very often neglected in existing literature. It was not until 2001 – 2002 when the Bulgarian customs started a massive campaign in fighting corruption and increasing the institution's efficiency. The Customs Act, 1998 and its implementing regulations provide the main framework for Bulgaria's customs administration. With substantial external expertise and assistance the aim was to facilitate trade through reductions in document processing time, enhance customs revenue, and reduce problems of corruption and smuggling.

Still one should not be relying on strongly linking trade liberalization with the deterioration of Bulgarian economic indicators. Trade liberalization did not occur in isolation from other reforms, both economic and political. During the period 1990–1997, there was no political consensus in the country as to the economic policy priorities needed at both macro and micro levels. This resulted in a stop-and-go transformation towards a market economy, which caused the GDP to shrink by 40% in real terms, while consumer prices rose almost 20 times relative to 1990. Inflation averaged annual 233% year during 1990–1997, and turned into hyperinflation from late 1996 to early 1997, at the height of a major banking and exchange rate crisis (*IMF, 2004*). Tables 2 and 3 illustrate the dynamics of GDP, export and import volumes between 1992 and 2001. Appendix 1 gives a more detailed picture on the exports and imports. It is worth noting that the WTO membership that started one month before the beginning of 1997 does not appear as a clear turning point.

Table 2: GDP and CPI dynamics 1992-2001.

1995 US$ millions	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
GDP	12,702	12,514	12,741	13,106	11,874	11,209	11,657	11,925	12,569	13,072
GDP/Cap*	1,487	1,477	1,511	1,560	1,421	1,349	1,412	1,453	1,547	1,652
CPI**	18.2	31.5	61.7	100.0	221.6	2,567.0	3,046.4	3,124.8	3,447.1	3,700.8

* GDP/Cap =GDP per capita (constant 1995 US$) / ** CPI =Consumer price index (1995 = 100)
Source: (*WDI, 2006*)

Table 3: GDP, Exports and Imports level before and after WTO accession.

	1992	1997	2001
GDP	12,701,960	11,208,990	13,072,220
Exports	2,291,892	5,055,977	5,333,602
Growth (in %)		121%	5%
% of GDP	18.0%	45.1%	40.8%
Imports	4,575,512	5,000,384	5,353,519
Growth (in %)		9%	7%
% of GDP	36.0%	44.6%	41.0%

(Source: (*WDI, 2006*)

Tariff policies

After the accession to the WTO, trade liberalization has been much faster for industrial products than for agricultural goods. The simple average tariff on agricultural products is 47,6% while on non-agricultural items it is 22,7%. When the Most Favored Nation (MFN) tariff rates were applied the simple average tariff presented less than 12% in 2003 against 17,2% in 1996. The applied simple average MFN rates were 21,7% for agricultural products and 8,6% for industrial products (*Tussie & Aggio, 2004*). Applied duties range from 0 to a maximum of 40% for industrial products and 80% for agricultural products. Since 1999, zero duty had been introduced on a voluntary basis for almost the entire range of goods covered by the Information Technology Agreement (ITA), and, since the formal adoption by Bulgaria of this Agreement, as from 1 January 2002 zero duty applies to all products covered by the Agreement. On the basis of the International Standard Industrial Classification (ISIC), the Bulgarian tariff structure shows tariff escalation; the first and semi-processed stages of manufacturing attract average rates of 7,8% and 8,8% respectively and fully processed products attract an average tariff of 13,4% (*Ognivtsev, 2005*). Tariff escalation appears to be relatively higher in the food, beverages and tobacco, textile and leather, wood and furniture, and chemicals sectors.

Bulgaria also provides more favorable market access to 118 developing and least developed countries under the Generalized System of Preferences /GSP/. It applies preferential duties on a large number of goods originating from developing countries, at the rate of 70% of the MFN duty rate, and for imported goods originating from least developed countries it applies zero duty. For the Bulgarian economy, trade with developing countries either diminished (mostly exports), or increased at rates much below the average (mostly on the import side) (*Kaminski et. al., 1996*). Consequently, the share of developing countries in the total trade remained broadly unchanged. The export to the developing countries rose only marginally in current dollar terms (and probably fell in real terms).

3. Perceived Impact of WTO membership

3.1. Trade - *Imports*

During the process of its accession to the WTO, Bulgaria introduced new anti-dumping, countervailing and safeguard legislation in conformity with WTO disciplines. Bulgaria has not introduced any countervailing measure. Bulgaria applies a 20% value-added tax on most goods and services, including imports. Excise duties are levied on a limited number of products for mainly health and environmental reasons. Table 4 and 4a segregate the total import by the top 1st level of HSC (Harmonized System Codes) code. The letter "A" indicates the first year after accession to the WTO.

Table 4: Bulgarian imports[1] before and after WTO accession (segregated by HSC code).

HS Code	Bulgaria 1992	1997 A	2001 L
Value (95$000) of HSC4th product lines			
0-Food and live animals chiefly for food	221,105	356,838	309,365
1-Beverages	153,420	141,874	54,272
2-Crude materials, inedible, except fuels	138,817	197,781	220,669
3-Mineral fuels, lubricants (petroleum)	1,164,123	919,798	191,923
4-Animal & vegetable oils, fats and waxes	5,242	12,116	17,977
5-Chemicals and related products	244,352	278,186	411,858
6-Manufactures (rubber textiles, steel...)	507,764	674,008	861,402
7-Machinery and transport equipment	779,693	581,142	1,087,630
8-Miscellaneous manufactured articles	248,743	337,099	601,250
9-Commodities & special transactions	9,814	165	853
	3,473,073	3,499,007	3,757,198

Source: (*WDI, 2006*)

[1] See also Appendix 1.

Table 4a: Imports by product lines (HSC4th)

Value (95$000) of HSC4th product lines	1992	1997	2001
Agri	221,105	356,838	309,365
Petrol	1,164,123	919,798	191,923
Manuf	1,536,199	1,592,249	2,550,282
Other	551,645	630,123	705,629
Total	3,473,073	3,499,007	3,757,198

Source: (*WDI, 2006*)

Observing Tables 4 and 4a it appears that WTO membership did not have an immediate impact on the imports dynamics. It can be rather correlated with the general revival in the Bulgarian economy (and economic reform) that started in 1998. The bounce in machinery and transport equipment was largely caused by a reduction in passenger cars followed by a general increase in all imports most noticeably an increase in electrical goods parts (coinciding with the liberalization of the electricity sector) and an increase in transport vehicles (*Evenett, 2005*).

Exports

In contrast to Tables 4 and 4a while the imports were not really influenced by the WTO membership that is not the case with the export figures as seen in Tables 5 &5a. For Bulgaria, much of the increase in exports is in articles of apparel and clothing accessories and footwear. These have increased from US$424 million at the time of accession to over US$1 billion in 2001. The liberalization has increased the exports of electricity as well. In other product lines as beverages and animal & vegetables oils there is steady increase from 1992 to 1997, and after the accession there is significant decrease in the exported volumes (respectively from US$166 million to US$87 million for the beverages and US$18.4 million to US$5.8 million for animal & vegetables oils).

Table 5: Bulgarian exports[2] before and after WTO accession (segregated by HSC code).

HS Code	Bulgaria 1992	1997 A	2001 L
Value (95$000) of HSC4th product lines			
0-Food and live animals chiefly for food	298,169	173,807	221,250
1-Beverages	148,533	166,658	87,883
2-Crude materials, inedible, except fuels	222,161	188,685	217,891
3-Mineral fuels, lubricants (petroleum)	37,289	319,611	502,167
4-Animal & vegetable oils, fats and waxes	11,800	18,458	5,866
5-Chemicals and related products	226,233	394,459	277,246
6-Manufactures (rubber textiles, steel..)	406,676	814,731	684,107
7-Machinery and transport equipment	181,682	226,237	263,553
8-Miscellaneous manufactured articles	365,405	501,082	1,233,546
9-Commodities & special transactions	12,795	12,310	37,418
	1,910,743	2,816,038	3,530,927

Source: (WDI, 2006)

[2] See also Appendix 1.

Table 5a: Exports by product lines (HSC4th)

Value (95$000) of HSC4th product lines	1992	1997	2001
Agri	298,169	173,807	221,250
Petrol	37,289	319,611	502,167
Manuf	953,763	1,542,050	2,181,207
Other	610,657	768,344	593,411
Total	1,899,877	2,803,812	3,498,034

Source: (WDI, 2006)

Bulgaria does not apply any particular export subsidies. In line with the Government's conservative fiscal stance, the amount of subsidies in general has declined, both in absolute and relative levels. As a percentage of GDP, state aid declined from 3,3% in 1999 to 0,7% in 2001. The mining and transport sectors have benefited the most from state aid: assistance for the production of coal (29,5% of value) and provision of transport services (29% of value) accounted for almost 60 % of the total subsidies in 2001 (*WTO, 2003*).

A study by Evenett in 2005, attempted to segregate the changes in the values to the types of WTO participants in the export destinations: *Original WTO*, *New WTO* and *Not WTO*. The study reached the conclusion that the change in trade after joining WTO is with 'old' WTO Members (*Evenett, 2005*). The combination of trade liberalization and privatization has led to important changes in resource allocation, with consequences on the dynamics of trade specialization. Most significant is the dramatic reduction in exports of machinery and equipment, from about half of Bulgaria's exports in 1989 to less than 14% in 2003. The share of consumer goods in exports rose from around 10% in 1989 to some 27% in 1995 and 36,6% in 2003; this increase is being driven largely by rapid export growth in clothing and footwear, the value of which increased fivefold, from US$313 million (6,3% of total exports) in 1995 to US$1,6 billion (21,9% of total exports) in 2003. Among other exports, metals accounted for about 16,1% and chemicals for about 3,4%.

Despite the improved economic performance in recent years, Bulgaria's trade balance has fallen, from a surplus of US$321 million in 1997 to a deficit of US$2,5 billion in 2003. In relation to GDP, its share moved from +3,1% to –13,1%. Correspondingly, the current account of the balance of payments steadily deteriorated from a surplus of US$1,05 billion in 1997 (10,1% of the GDP) to a deficit of US$1,65 billion in 2003 (8,7% of the GDP). Although the savings rate rose to 14,5% of GDP in 2001, it is still low by most standards (*AEAF, 2004*). The persistent current-account deficit represents a major challenge and also reflects the low competitiveness of the Bulgarian economy.

3.2. Agriculture

Since 1997, licensing requirements for the import and export of agricultural products have been removed and by 1999, price controls had been lifted on all agricultural output prices, except tobacco. Currently the only import protection for agricultural products is through tariffs. As a result of the implementation of the Uruguay Round commitments, the arithmetic average rate for agricultural products is being progressively reduced. In 2003, the average applied MFN rate for agricultural goods was 22,5%. This is lower than the arithmetic average level of basic EU rates of 25% (*WTO, 2003*).

Bulgaria's total aggregate measure of support (AMS) has been increasing since 1997. However, this is well below its total bound AMS level. Overall, domestic support for agriculture remains low. The main domestic support instruments include input subsidies, subsidies for interest rates, provision of guarantees and collateral to financial institutions, premium and buying-up provisions for tobacco, and bonuses on prices. Food and agriculture have historically been major components of Bulgaria's foreign trade. Unfortunately between 1990 and 1997 the value of agricultural exports fell by two thirds and continued to decline up to 2000. That was not due to the impact of WTO membership. It was a result of a disastrous reforms made by several governments in the agricultural sector. Of course, an increased competition from cheaper imports did not particularly help. In 2001, Bulgaria's agricultural and food exports picked some 3% on the year before and were estimated at US$504 million. Still that was one-quarter of the 1990 value (*AEAF, 2003*).

3.3. Industry

Typically manufacturers in the countries willing to join the WTO expect dramatically increased competition after WTO's accession. In many cases that is not correct as competition before WTO accession is considerably more unfair due to the constant smuggling and grey imports (*Zashev, 2005*). In fact, a WTO membership may rather help if it enables customs regulations become more simple and less of an obstacle and thus will legalise most imports. That in it turn may:
significantly add finances to the state budget as paying customs duties will be the better option compared to avoiding the customs all together[3] slightly increase prices for some imported goods and thus give a better chance to local manufacturers provide manufacturers with the needed motivation for rapid and drastic changes in their activities prove beneficial to consumers as the goods imported will go through the normal minimal control for safety and quality.

Prior to the transition, Bulgaria was specialized in the production and supply of capital and machinery as well as processed food products for the Council for Mutual Economic Assistance (CMEA) market. The collapses of CMEA, and trade liberalization and privatization reforms introduced in subsequent years have led to significant changes in resource allocation, and consequent effects on the dynamics of trade specialization. During the reform process, a visible de-industrialization has occurred owing to two major factors: the relatively lower level of competitiveness of Bulgarian industries, and existing trade restrictions in major markets, especially those related to technical barriers and market entry conditions. Currently Bulgaria's major industrial exports include textiles and apparel, non-ferrous metals, iron and steel, and footwear. Export of manufactured products has been the major contributor for trade growth and contributes up to 54% of total export earnings. Appendix 1 presents the dynamics of Bulgarian exports and imports between 1996 and 2003 (*Ognivtsev, 2005*).

The main trade policy instrument influencing the industrial sector is the import tariff. As noted, the average MFN tariff on non-agricultural goods in 2003 was 8,7%, with a maximum of 40%. However under Bulgaria's preferential trade agreements, which account for the greatest part of trade in industrial goods, all industrial products enter duty free. Furthermore most of the Bulgarian manufacturers do not consider tariffs to be significant barriers (*WTO, 2003*).

3.4. Services

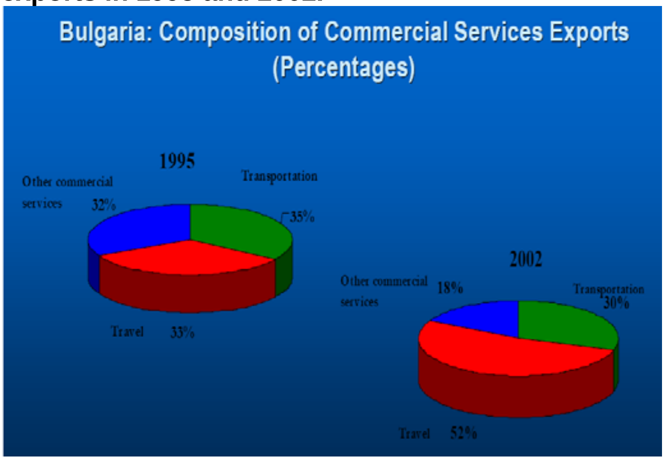
With regard to services, upon WTO accession Bulgaria made certain commitments across all major service sectors. The documents related to the liberalization of the telecommunications were ratified from the Bulgarian Parliament in December 1997 (*ISB*). However it was the financial sector that became one of the main beneficiaries of WTO related reforms in services and the following it combination of FDIs and privatization. As a result the majority of banks in Bulgaria are at present owned by foreign capital. However, one may argue, that the possible shortcomings from foreign ownership are well balanced by such advantages as having more efficient and transparent banking.

According to Ministry of Economy statistics, the service sector's share of GDP is increasing fast. Over the period 1998-2001 the services sector recorded an annual average growth of 4,2% with the fastest growing elements being communications, finance, credit and insurance, and the wholesale and retail trade. In 2002 the growth in the service sector maintained its leading role with 6,6% (*BGRF-WIDE, 2004*). One sector with

[3] Latvia and Bulgaria are two very good examples for the link between successful customs reforms and improved governmental revenues.

great potential and most likely to benefit from the reforms was tourism as shown in Figure 2. This sector is the main service industry, which is contributing to the positive balance of trade in services.

Figure 2: Composition of commercial services exports in 1995 and 2002.



Source: (MEE, 2004)

3.5. Investment policies framework

There are no limitations on the amount of foreign participation in a newly formed or existing company and unrestricted acquisition and transfer of funds abroad. In the early 90's Bulgaria's slow pace of privatization, contradictory government tax and investment policies, and bureaucratic red tape have kept foreign investment among the lowest in the region. Total direct foreign investment from 1991 through 1996 was US$831 million. As seen in Table 6 the first year of WTO membership marks a significant increase in the investment volumes. Between 1997 and 2002, the average annual flows of FDI reached US$693 million. However one should account also that privatization efforts were renewed in about the same period that of course also played significant role for the rise in FDI volumes.

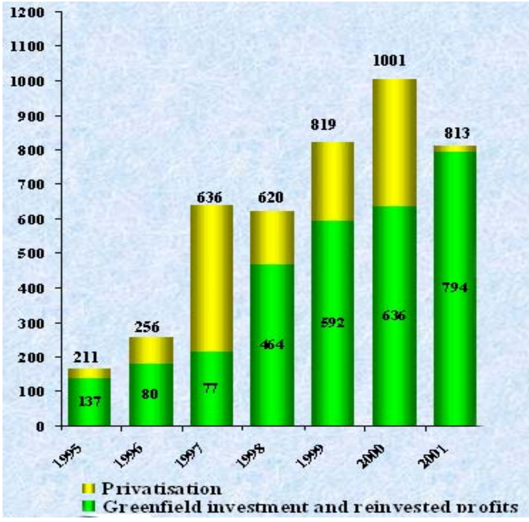
Table 6: Annual inflow of Foreign Direct Investment in Bulgaria (in US$ million)

YEAR	VOLUME IN US$ million
1992	34.4
1993	102,4
1994	210,9
1995	162,6
1996	256,4
1997	636,2
1998	620,0
1999	818,8
2000	1001,5
2001	812,9
2002	904,7
2003	1419,4

Source: (*BIA, 2004*)

In general, after 1997, foreign direct investment has been mainly attracted by the following service sectors: finance, tourism, transport, telecommunication and construction. The financial services for example, comprise 26% of the total FDI inflows in 2002. In 2004 alone FDI reached some €2,72 billion (US$3,47 billion) (*MEE, 2006*). Still as Figure 1 shows the green-field investments in Bulgaria rose significantly immediately after the WTO accession and continued to grow in the following years. To a large extent this could be contributed to the WTO membership and to the implemented legislation guaranteeing equal treatment of domestic and foreign investors.

Figure 1: Shares of privatization and Greenfield investments in FDI 1995 – 2001



Source: (*BIA, 2003*)

4. Conclusions

WTO membership was certainly one of the factors that brought significant changes in the product composition and direction of Bulgarian foreign trade. Before the transition, over half of Bulgaria's foreign trade was with members of the CMEA. Between 1995 and 2002, imports from preferential partners increased from 40% to 67% of the total, with the increased re-orientation of trade towards the EU accounting for most of this trend. In 2002, the EU accounted for 53% of Bulgaria's total trade up from 38,5% in 1995 (*WTO, 2003*).

When it comes to composition the effect is somewhat less cheerful. In the pre-transition period Bulgaria was a major exporter of capital goods and processed food to the CMEA countries. Currently the country is a net importer of these products while exports competitiveness is observed in tourism, footwear, textiles, and apparel industries. The lost of the CMEA markets, disastrously poorly planned and implemented reforms and the competitive pressure from global manufacturers had also a negative impact for number of industries. Serious changing occurred in manufacturing and particularly machinery and equipment. On one hand one may wonder if the substitution of high value added capital goods for footwear, textiles and apparel should be called industrial restructuring or industrial downgrading. On the other hand it is an even bigger question mark if the industrial restructuring would have been an option in a closed and small market remaining outside the WTO.

Interestingly in terms of its trade performance measured in imports and exports volumes it had somewhat insignificant impact. Disaggregated product-line studies of Bulgaria's exports to the Quad countries[4] shed some light on whether the incentives created by WTO accession are working or not. Kennett, Evenett, and Gage (2005) found that, once other determinants of market entry were controlled for, sales of long-standing exports to new markets were not helped by WTO accession. In contrast, sales of long-standing products to existing foreign markets were found to rise after WTO accession - suggesting that Bulgarian exporters responded positively to the incentives created by WTO accession. In a parallel study Jonathan Gage and Simon J. Evenett, had similar findings. According to it the Bulgarian data pretty definitively rejects the hypothesis that improvements in the security of its preferential access to foreign markets bolstered exports after WTO accession. In contrast, Bulgaria's export growth correlates well with the falling applied MFN rates in the Quad countries. The study estimated that approximately a fifth of Bulgaria's export growth to the Quad countries can be attributed to this effect, and therefore to Bulgaria's membership to the institution that fostered this tariff cutting, the WTO". Thus one may argue that the WTO accession has enabled Bulgaria to begin shipping long-standing product lines to the Quad countries. That is somewhat not visible provide the figures in Appendix 1 but could be accepted in line with ongoing changes in exports composition before and after the WTO accession.

Among the most positive impacts was the relative importance of WTO membership for the country's ability to attract Foreign Direct Investments. Among the main beneficiaries from the FDI inflow was the services sector and particularly tourism, banking and insurance, transportation, telecommunications and construction.
Generally the WTO membership certainly played a positive role even if its short-term consequences have been negative. Firstly it was one of the considerable forces shaping the restructuring of modern Bulgarian economy in general and industry in particular. Even if the transition and WTO membership as a part of it led to significant deindustrialization – the surviving or newly born companies are more or less competitive at a global scale. Secondly, WTO membership added to opening the economy for foreign investments. The financial sector in general and banking in particular experienced a serious inflow of FDI, which led to improved performance and availability of various forms of credits. The latter brought revival in consumer spending and housing markets among others. Thirdly the country's exports marked a tangible growth particularly to the Quad countries.

On the other hand Bulgaria is experiencing significant constant trade deficit that indicates that the country's competitiveness at a global level remains low. However it is not possible to credibly prove that had the country chose to maintain more restrictive trade policies being outside the WTO its overall competitiveness would have progressed better. Especially if take into account the fact that FDI volumes would have been lower.

4 The name used at the WTO to describe the four major industrialised-country markets: the US, Canada, the European Union, and Japan.

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Appendix 1

Table 11: Main Bulgarian Exports (US$ million)

EXPORTS	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Total trade	4,890,209.0	4,939,687.7	4,292,944.7	3,924,538.7	4,821,843.9	5,113,888.2	5,748,866.9	7,540,230.3
Food and live animals	413,808.0	327,645.3	354,253.9	320,510.5	289,428.2	320,070.3	476,492.5	503,043.6
Beverages and tobacco	431,390.9	306,459.2	252,285.3	190,559.2	154,441.3	128,042.2	133,451.2	157,940.8
Crude materials, inedible, except fuels	245,418.2	267,784.7	244,101.9	272,578.5	283,308.5	269,828.1	341,631.7	446,067.6
Mineral fuels, lubricants and related materials	318,202.8	374,640.6	151,766.7	274,322.6	561,978.1	457,671.8	344,401.8	436,950.9
Animal and vegetable oils and fats	18,622.7	21,133.8	20,774.4	22,478.2	11,131.8	12,347.7	15,767.1	12,668.2
Chemicals	894,618.3	838,152.2	561,017.6	350,804.9	483,559.9	460,362.4	440,996.0	562,376.4
Manufactured goods classified chiefly by material	1,333,008.3	1,510,414.9	1,239,960.0	970,825.2	1,293,401.5	1,274,456.1	1,355,524.5	1,952,031.1
Machinery and transport equipment	606,731.4	546,700.6	517,180.2	442,840.9	463,303.3	564,170.9	714,852.2	981,377.9
Miscellaneous manufactured articles	500,491.2	571,075.0	663,993.0	810,888.5	974,976.6	1,237,582.7	1,489,299.9	2,061,294.0
Commodities & transactions not classified elsewhere	127,917.2	175,681.3	287,611.7	268,730.4	306,314.6	389,355.9	436,450.0	426,479.8

Main Bulgarian Imports (US$ million)

IMPORTS	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Total trade	5,073,946.1	4,931,978.6	4,995,119.4	5,409,540.2	6,504,688.3	7,278,159.0	7,987,046.6	10,901,059.6
Food and live animals	312,840.9	362,775.8	292,968.3	246,280.9	266,606.9	312,011.1	361,256.4	483,499.3
Beverages and tobacco	55,970.2	40,753.5	55,269.0	50,348.2	45,578.0	43,306.6	48,892.9	46,410.8
Crude materials, inedible, except fuels	288,257.2	351,775.3	362,641.5	274,858.3	359,840.1	398,463.4	355,288.7	603,163.0
Mineral fuels, lubricants and related materials	1,715,831.1	1,503,433.5	995,576.1	1,082,488.2	1,682,955.0	368,156.2	273,397.2	432,553.6
Animal and vegetable oils and fats	17,066.5	13,931.3	19,151.2	16,822.0	18,887.9	26,679.0	49,672.3	44,779.2
Chemicals	548,006.5	510,301.7	616,590.4	525,570.2	584,265.0	703,321.2	787,348.0	1,040,537.8
Manufactured goods classified chiefly by material	877,017.4	952,678.0	1,029,262.5	1,022,286.0	1,256,843.0	1,494,182.0	1,675,560.4	2,345,076.9
Machinery and transport equipment	814,386.1	802,075.0	1,042,814.6	1,575,169.9	1,621,263.4	2,003,084.8	2,210,796.6	3,120,194.4
Miscellaneous manufactured articles	256,699.2	279,721.8	367,855.4	439,802.8	474,843.2	625,206.7	763,587.4	1,081,907.5
Commodities & transactions not classified elsewhere	187,871.2	114,532.7	212,990.4	175,913.7	193,605.8	1,303,748.1	1,461,246.8	1,702,937.2

Source: UN COMTRADE, Classification SITC

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Non-governmental Organizations (NGOs) and WTO

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Abstract

The paper addresses few questions which might interest those experts who mostly deal with WTO from other research perspectives, e.g. regional/state or the so-called sectorial angles. Indeed, why we should be concerned about WTO-NGOs relationships? Is it just a mere gesture in order to please a civil society groups in the developed world or is it something more than a question of political correctness? What is NGOs for WTO – an inevitable evil, a competitor or a partner? And more generally, what is the potential of the NGOs in the contemporary system of international relations? Whether NGOs are able to contribute to finding a compromise between the North and the South in the on-going negotiations within the Doha round?

Keywords: WTO, research, non-governmental organizations, north and south
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Introduction

Given the high visibility of the anti-globalization NGOs today, all leading international economic organization (the IMF, World Bank and WTO) cannot ignore this new movement of civil society groups which numbers increased to a level that none have anticipated a quarter century ago. The Johns Hopkins University Professor Lester Salamon has called the spread of NGOs in recent years the global 'association revolution'. [1]

The concept of "civil society" has been defined in many ways. For the purpose of this paper I focus on civil society as an arena of association and action independent of the state and the market in which citizens can organize to pursue purposes that are important to them, individually and collectively. Civil society actors include charitable societies, churches, neighborhood organizations, social clubs, civil rights lobbies, parent-teacher associations, unions, trade associations, and many other agencies.[2] Generally speaking, an activism of NGOs is a new phenomena for a world trade system. There were never such a big number of actors involved in international trade negotiations. Though some NGOs approached GATT as early as 1947, the international trade system had enjoyed immunity from the civil society until after emergence of the WTO (1995). When Ministers adopted the Marrakesh Agreement they also decided to include a specific reference to NGOs in Article v.2. In its relations with *Other Organizations* the General Council could make "appropriate arrangements for consultation and cooperation with non-governmental organizations concerned with matters related to those of the WTO".

On 18 July 1996 the General Council further clarified the framework for relations with NGOs by adopting a set of guidelines which "recognizes the role NGOs can play" towards WTO. This role is twofold: First, NGOs might increase the awareness of the public in respect of WTO activities, second, . NGOs might improve transparency of the WTO. In order to contribute to achieve greater transparency WTO Members will ensure more

[1] See, Jagdish Bhagwati, In Defense of Globalization. Oxford University Press, 2005, p. 36.

[2] L. David Brown, Sanjeev Khagram, Mark H.Moore and Peter Frumkin, Globalization, NGOs, and Multisectoral Relations. In: Joseph S. Nye and John D. Donahue (eds.). Governance in a Globalizing World. Cambridge, Massachusetts and Brookings Institution Press, Washington, DC, 2000, p. 275

information about WTO activities in particular by making available documents which would be derestricted more promptly than in the past. To enhance this process the Secretariat was obliged to make available on on-line computer network the material which is accessible to the public, including derestricted documents.

The Guidelines prescribed also a new role for Secretariat. It should play a more active role in its direct contacts with NGOs who, as a valuable resource, can contribute to the accuracy and richness of the public debate. This interaction with NGOs should be developed through various means such as inter-alia the organization on an ad hoc basis of symposia on specific WTO-related issues, informal arrangements to receive the information NGOs may wish to make available for consultation by interested delegations and the continuation of past practice of responding to requests for general information and briefings about the WTO. If chairpersons of WTO councils and committees participate in discussions or meetings with NGOs it shall be in their personal capacity unless that particular council or committee decides otherwise. But the most important issue for the WTO-NGOs interrelations remained unsolved. Referring to "the special character of the WTO, which is both a legally binding intergovernmental treaty of rights and obligations among its Members and a forum for negotiations, Member states openly declared in 1996 (and keep standing firm on this now) that "there is currently a broadly held view that it would not be possible for NGOs to be directly involved in the work of the WTO or its meetings".[3] Closer consultation and cooperation with NGOs can also be met constructively through appropriate processes at the national level where lies primary responsibility for taking into account the different elements of public interest which are brought to bear on trade policy-making.

Since 1996, NGOs actively cooperate with the WTO in three main areas. First, they take part in the Ministers' conferences. Second, NGOs participate in various research forums devoted to international trade system. And finally, civil society groups established dialogue with WTO Secretariat on the constant bases. It is no longer reduced to formal requests by the NGOs. One of the most important novelties of co-operation is direct contacts with WTO officials. NGOs enjoy the right to attend plenary sessions of WTO bodies. The only requirement for such kind of activity is to register in advance in the WTO Secretariat. As a rule, the Secretariat registers those groups which activity relate to the WTO agenda. With the time being, a number of NGOs participating in Ministerial Conferences increased from 108 in 1996 to 152 in 1997 and for a decade has almost tripled. Since 1998 the Secretariat has hosting regular briefing for the NGOs and media as well as supporting a special webpage devoted to the NGOs at the WTO website. So, what are strongholds of NGOs? Why they became so important in the life of WTO? There are four main arguments in favor of more active role of NGOs in formation of policy by international organizations. The first argument is that NGOs possess exceptional expertise in some areas and this knowledge should be used for the sake of humankind. The second argument refers to a unique ability of NGOs to represent corporate interests of various stratus of society. The third argument stipulates that NGOs contribute a lot to political pluralism in global governance. Cardoso Commission even defined international public opinion expressed through NGOs as the "second superpower".[4] And finally, some Western NGOs are rich.

Indeed, financial bases of NGOs have been established quite long ago. In early 1980s leaders of the US, UK and Federal Republic of Germany paved the way to the current economic and political might of NGOs. These civil society groups have invoked in order to diminish the role of state machinery previously played in regulation of economy. NGOs have been viewed among other functions as an alternative for channeling international assistance. New situation of competition among NGOs provided a room for maneuver for the governments. At the same time NGOs demonstrated some advantages to traditional state bodies. Mobility, high degree of redness to adopt to a new situation have been too visible to be ignored. Thus, most of NGOs originated in industrialized countries. Many have branch organizations and large projects in developing countries.[5]

This cooperation between states and NGOs lasted quite long and resulted in three major outcomes. First, NGOs have learned in delivering services and responding to disasters; second, they have developed skills in analyzing and advocating policy alternatives; and finally, civil society groups have become able to promote learning. Later on these expertise became a bases for relationship with all leading International economic organizations. As Columbia University Professor Jagdish Bhagwati argues, among globalization- and anti-WTO focused NGOs are the Washington-based Economic Policy Institute, which addresses American and European labor unions' fears by depressing unskilled workers' wages; the vastly successful Sierra Club, which worries about globalization's effects on the environment; Ralph Nader's group, Public Citizen, which has ceaselessly agitated against globalization and denounced the WTO; the International Forum on Globalization in the United

[3] Guidelines for arrangements on relations with Non-Governmental Organizations. Decision adopted by the General Council on 18 July 1996 – www.wto.org/english/forums_e/ngo_e/guide_e/htm

[4] In 2002 then UN Secretary General K. Annan has established a special expert group under Cardoso whose primary goal was to develop suggestions in order to improve relationship between UNO and NGOs. See, Piter Willets. The Cardoso Report on the UN and Civil Society: Functionalism, Global Corporativism, or Global Democracy. Global Governance, 2006, No.12, pp. 305-309.

[5] Woods, Ngaire. The Globalizers. The IMF, the World Bank, and their Borrowers. Cornell University Press, Ithaca and London, 2006. P.200-202.

States[6] and the Canadian “Rights and Democracy”. According to the President of the “Rights and Democracy” W. Allmond, the highest cynicism of the WTO is its attempt to equalize breaches of WTO norms with violation of human rights.[7]

Recent research suggests that international NGOs or NGOs alliances are helping to formulate and implement many international decisions and policies. They have shaped international events in at least the following ways: identifying problematic globalization/trade liberalization consequences that might otherwise be ignored; articulating new values and norms to guide and constrain international practice; building transnational alliances that advocate for otherwise ignored alternatives; altering international institutions to respond to unmet needs; disseminating social innovations that have international applications; mobilizing resources and acting directly on important public problems.[8]

Civil society actors are often the first to use global information networks to identify international problems that are not raised or resolved by existing international arrangements. Since their financial support now depends on public visibility of problems, they also develop linkages to media to raise public awareness of critical problems (for instance , NGOs from developing world frequently raise such issues as unequal distribution of trade liberalization incomes as well as of expanding wealth and opportunity; unfair treatment of trade partners by developed nations, etc. while NGOs from developed nations focus primarily on democratic accountability of major IEOs, efficient use of resources and actualization of core values). Raising public awareness of problems is often a prerequisite to action, and international NGOs initiatives can create global discourse on emerging problem.

A second role for the NGOs in the globalarena is to help construct international values and norms that can guide future international policies and practices.[9] International NGOs and civil society alliances can help articulate values and norms to interpret new problems, such as the issues of environmental sustainability and trade, and in articulating respective practices. A third role for the NGOs is arranging campaigns to formulate and enforce global public policies in response to critical problems.[10] For example, the International Baby food Campaign produced a code of conduct adopted by the United Nations.

A fourth role for the NGOs is to create or reform international institutions to improve response to global problems. The World Bank, for example, has been the target of transnational alliances concerned with reducing the secrecy of their operations and creating avenues for local stakeholders to protest Bank projects that violate its own policies. These campaigns paved the way for transparency in activity of other IEOs including the WTO. Another role of the NGOs is creating and disseminating social innovations that affect international governance process. The demonstrations at the WTO meeting in Seattle, for example, have been the manifestation of NGO forums that have brought hundreds of NGOs to highly visible international gatherings.

Finally, the NGOs may also act as mediators or catalysts for resolving conflicts at national and international levels. The NGOs have demonstrated the capacity to mobilize people and resources for international action on important public problems. To summarize, NGOs may play various roles and just a few of them have enough resources to be active on all dimensions. In some cases NGOs play primary roles in identifying problems or articulating value positions. In others they take direct action to invent or press for problem solution.[11] Though NGOs’ roles grew substantially over last two decades, they are not happy with their current status. They want to do more than they have now in relations with the WTO. Getting information from the first hand is OK but what about real participation in WTO trade dispute mechanism? This issue became a litmus test for the WTO willingness to take NGOs seriously.

As a matter of fact, WTO norms do not provide broad opportunities for any outsiders in its dispute settlement arrangements. Only Members can participate directly in litigation. In fact, there are just two options for civil society groups to participate in this process. One of the Members might attach to the case an opinion by an NGO. This opinion by definition should fully correspond the view expressed by the Member. Moreover, the only reason for use such an opinion is the willingness to get additional arguments in a dispute. The second option for NGO’s participation in the process might be provided by Appellate Body seeking ‘an additional information and advice on certain technical issues’. In this second case an NGO should qualify to quite strict criteria. First of all, an NGO should prove its neutral status in a dispute. Legal status, disclosure of financial sources and other related issues are prerequisite even for indirect participation in the legal process. Besides, NGO gives the full list of legal issues that it wants to address and to specify how WTO might use ‘technical advice’. Finally, a NGO opinion should be handed over to WTO well in advance (at least eight days prior beginning of hearings) and be short (up to three pages long). Obviously, the

6 . Jagdish Bhagwati, In Defense of Globalization. Oxford University Press, 2005, p. 37.
7 Ziegler, Jean. Die neuen Herrscher der Welt und ihre globalen Widersacher. München, 2005. S. 141.
8 L. David Brown, Sanjeev Khagram, Mark H.Moore and Peter Frumkin, Globalization, NGOs, and Multisectoral Relations, p. 283
9 Ibid, p. 284.
10 See Sanjeev Khagram and Kathryn Sikkink, “Restructuring World Politics: Transnational Social Movements, Networks, and Coalitions in International Norms”. In: Sanjeev Khagram, James Riker,and Kathryn Sikkink (eds.) Restructuring World Politics: The Power of Transnational Agency and Norms. Cornell University Press. 2002
11 L.David Brown, Sanjeev Khagram, Mark H.Moore, and Peter Frumkin, ” Globalization, NGOs, and Multisectoral Relations,p.283-285.

WTO has established quite a fence in order to minimize potential of NGOs in dispute settlement. As for now, there is practically no hope for a change of the situation in favor of NGOs. Developing and less developed nations support status-quo. For instance, India and a number of African countries simply do not want to allow developed nations to obtain another important tool of influence within the Organization. And oppose to the EU initiative to allow NGO forward their views with no prerequisites directly to the Dispute Settlement Body. [12]

In conclusion I want to stress that the growing recognition of civil society actors as legitimate and valuable actors in international governance (including trade) is an established fact. Though the WTO has established a three dimensional cooperation with NGOs, and became much more transparent for civil society, it still considers NGOs with certain degree of suspicions. Sharing information about trade negotiations is important step forward but it is not enough for real participation of civil society in decision making process in any of existing forms. WTO' unwillingness to allow NGOs a bigger role in trade dispute mechanism illustrates state-centric approach which still dominate the stage in World trade organization.

[12] Marco M. Slotboom. Participation of NGOs before the WTO and EC tribunals: which court is the better friend? *World Trade Review*, 2006, 5:1. P.69-97

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A Framework for Spirituality into the Workplace

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Abstract

Purpose *– This article addresses the emerging role of spirituality in the workplace.*
Design/methodology/approach *– Reviews recent critique on spirituality in the workplace practices and discusses a practical, innovative measurement framework.*
Findings *– Spirituality, a phenomena especially prevalent and growing in the First World, is making significant inroads into the workplace. The reason is two-fold. Firstly, spirituality provides a sense of meaning and purpose in the lives of individuals experiencing alienation or an existential vacuum in an otherwise insecure world. Secondly, many of those individuals are employed within organisations formed for commercial gain. Employees are increasingly demanding that the organisation align itself with more spiritual values. Given the highly competitive nature of global business, human capital often gives the competitive edge to an organisation, and valuable employees must be retained. Consequently enlightened organisations are adopting spiritual values to the benefit of all stakeholders: employees, business partners, management and shareholders.*
Practical implications – *Despite the upsurge in philosophical questioning, it would appear that workplace spirituality has yet to find solid roots in management theory. Perhaps the term spirituality is, in a sense, its own worst enemy. Its many emotive connotations place it under suspicion in the eyes of observers, and its confusion with religion perplexes the uninitiated.*

Keywords: Spirituality, workplace, South Africa, Human resources

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Introduction

The purpose of this article is to propose practical guidelines for the implementation of spirituality into an organisation. In addition some critical issues around the topic of implementation are raised. These concern common problems encountered by some organisations, and an examination of implementation theory.

1. Insecurity surrounding the expression of spirituality in the workplace

Before considering practical approaches to workplace spirituality, a note of caution is offered by Lipps-Wiersma and Mill's (2002) research paper that considers the difficulties of getting people to enact spiritual beliefs at work. Their research reveals frequent reference to a lack of safety in expressing spirituality in the workplace. They identify several principles that could be employed to encourage spiritual expression:

- it is t is necessary to recognise that because spirituality is at the heart of many people's sense of identity, its expression is perceived to be risky. Spirituality comprises a sense of personal vulnerability which is magnified for those who perceive themselves to be spiritually different to the majority or norm. People consequently are

concerned with the outcome or consequences of embracing such a quest in the workplace.
- An organisation needs to uncover ways in which it inadvertently supports the expression of spirituality at the exclusion of intimacy, and work to eliminate these.
- Any action taken by an organisation to enhance trust and relationship development should reduce the potential for spirituality to be a source of marginalisation in the workplace. (Lipps-Wiersma & Mills, 2002: 191).

The above points highlight an observation that is not touched on by other academic writers. Because spirituality is such a personal choice, people sometimes tend to keep their beliefs to themselves. For those who hold beliefs that are different to the majority, the process of encouraging workplace spirituality can appear threatening. Consequently the introduction of spirituality into an organisation needs to be handled with great sensitivity if employee buy-in is to occur.

2. The Proposal for Changing Organisation Culture

Research suggests that, when considering how to bring spirituality into the workplace, organisational culture needs to be transformed collectively. Individually people might fulfil their spiritual needs by accepting responsibility for the common good, by understanding the interconnectedness of all life, and by serving humanity and the planet. Collectively this is done by transforming leadership and employees so that humanistic practices and policies become an integral part of the organisation's day-to-day function.

Clearly employers have to tread carefully in this matter. Simply imposing spirituality on employees would be counterproductive. Most corporations simply encourage religious expressions at the workplace, and make some resources available to help meet employees' spiritual needs. However, to be effective, spirituality needs to be integrated into the corporate culture and reflected in organisational policies and practices on a daily basis. This can be done only when senior management and the governing board embrace it as part of their vision. Wong (2003: 5) proposes that the full benefits of spirituality on morale and productivity will not be realised without a sustained, large-scale cultural transformation at all levels of the organisation. Garcia-Zamor (2003: 360) proposes that, in the first instance, corporations need to establish themselves as worthy organisations – that is, organisations with a higher sense of business purpose. This creates a new organisational culture in which employees feel happier and perform better. Employees find meaning in belonging to a work community that helps when things get rough. At the same time, a culture of sharing and caring will eventually reach all of the organisation's stakeholders: suppliers, customers and shareholders. In such a humanistic work environment, employees are more creative and have higher morale, two factors closely linked to good organisational performance (Garcia-Zamor, 2003: 362).

3. Movement for Organisational Transformation (OT)

Howard (2002: 237) summarises the history of organisational transformation (OT) in management theory: it has grown out of the organisational development movement over the past twenty years or so. OT, she suggests, cannot be neatly defined but proposes that organisations need to change in thought and action at a much more fundamental level than previously accomplished by change agents. Vailli (in Howard, 2002: 238) describes the OT movement as "a profound impulse towards a developed alternative to the old paradigm (reductionist management science) … [which] has to come to terms with the spiritual". OT is offered as a way to address the call for a more human face to Capitalism. It seeks greater environmental responsibility, social justice, transparency, morality and accountability from organisations. OT proposes that organisations can choose to support the development of individual spirituality, and furthermore, that they can choose to organise themselves around spiritual principles and goals. For example, Barrett (in Howard, 2002: 238) suggests that organisations should seek to turn every job into a mission. Hawkins (in Howard, 2002: 238) proposes the notion of service as the fundamental purpose for organisations. However organisations will have to find their own means of economical survival while pursuing non-material outcomes.

Howard suggests that organisations are exhibiting transformation characteristics when they attempt to use processes that engage people in communication through attempts at dialogue and meta-dialogue, that institute real-time strategic change, that use open space technology and lastly that encourage a culture of appreciative enquiry. These strategies show a move towards "honouring the core spirit of an enterprise or community" (Howard, 2002: 240). She notes that the exploration of spirituality within organisations is still at an early stage, and that the benefits or conflicts this might create are, as yet, unclear. But, she states, explorations are actively underway and involve content (addressing spirituality explicitly) and process (working in ways that release the highest levels of human potential). She concludes that continued research is needed into how spirituality can underpin transformation at all levels, including the role of leaders in this process. Finally, she proposes that this research should also explore the extent to which spiritual transformation includes the involvement of the divine (Howard, 2002: 240).

4. Implementation Theory

Research suggests that spirituality can be implemented in an organisation by two means: an organisation-centred approach and an individual-centred perspective.

4.1 The Organisation-centred Approach

The 1999 empirical study by Denton and Mitroff, *A Spiritual Audit of Corporate America* (in Krishnakumar, 2002: 160), concludes that spirituality should be implemented in the organisation as a whole. They suggest that, since there are many conflicting preferences and interests between different individuals, it is not possible to allow spirituality on an individual basis; rather the organisation should be changed as a whole. The study classifies organisations into groups based on their principle of spirituality (in Klebe, 2000: 2):

- The *religious-based organisation* is populated by fundamentalist Christians and is based upon "management by the Word of God". God is considered the leader of the organisation. Its structure is hierarchical and religious service is an important goal, along with profit. Although it has admirable characteristics, Denton and Mitroff contend that most readers will probably find this model unacceptable owing to its expression of religion (rather than spirituality) in the workplace (in Krishnakumar, 2002: 160).
- The *evolutionary organisation* category is based on study of two organisations, the YMCA and Tom's of Maine. The principles of the evolutionary organisation include a series of essential crises, spiritual openness, use of philosophical texts, wide range of stakeholders, development rather than growth as a goal, spiritual listening, hope and optimism, toleration of emotional expression, and financial and spiritual autonomy.
- The *recovering organisation* is viewed as sick and in need of radical change in order to recover.
- The *socially responsible organisation* aims to integrate social values into day-to-day activities and to harness the power of business to solve social problems.
- The *values-based organisation* leads with values rather than anything explicitly spiritual. Often these values are based on the fundamental personal values of the founders and leaders.

The study lays common grounds for the factors present in all the models which lead to the expression and realisation of spirituality. These are identified as a "key crisis or precipitating event", "a principle of Hope", the concept of "fundamental texts", "spiritual talking and listening", an "attitude towards the stakeholders", the concept of "limiting greed" and "the identification of functions of an organisation which are spiritualised" (in Krishnakumar, 2002: 160).

Denton and Mitroff (in Klebe, 2000: 2) conclude with a best-practice model that begins with a values-based organisation and then incorporates aspects of the other models. For example, the commitment to spirituality is borrowed from the *religion-based organisation*. The *evolutionary organisation* lends the notion of a higher power, responsibility to multiple stakeholders, the need for regular moral audits, and reliance on broader philosophical texts. Denton and Mitroff challenge organisations to evolve from the *values-based* to the spiritually-based organisation that will incorporate a deeper set of texts and practices from both Eastern and Western traditions (in Klebe, 2000: 2).

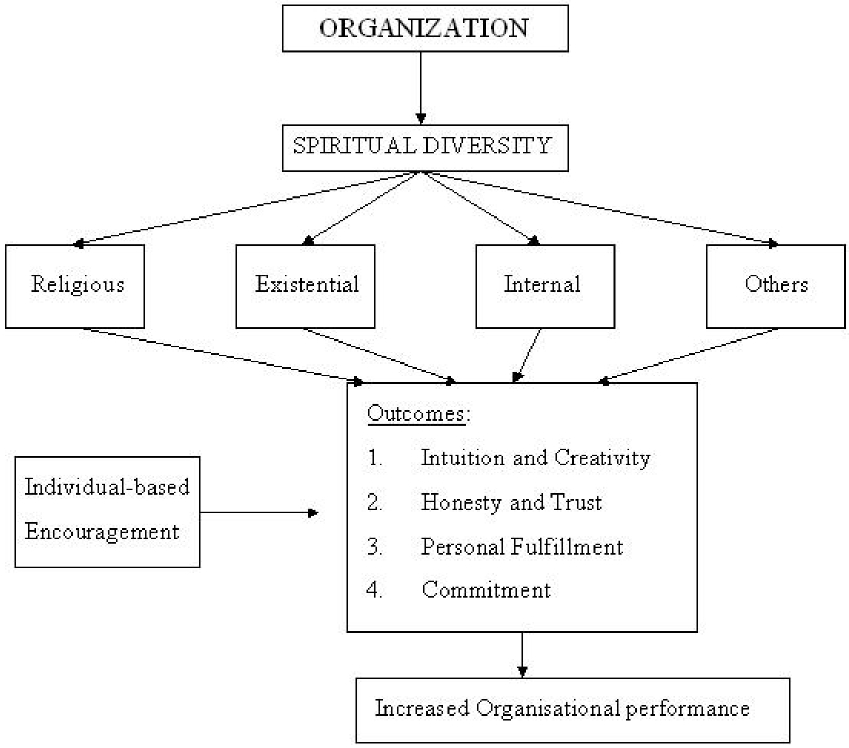
4.2 The individual-centred approach

This approach towards implementing spirituality tries to foster organisational change from an individual-centred point of view. Here the organisation would not have a strict spiritual orientation, but would rather try to accommodate and encourage spiritual requests from its employees. Because the organisation is a collection of individuals, each with a personal view on spirituality, the encouragement of spirituality starts with the individual and works outwards. Krishnakumar (2002: 160) suggests that leaders should attempt to understand the spiritual variety among a firm's members, encourage it and accommodate it. As a result, it can lead to the creation of meaning to the work employees do everyday.

It could be argued that an implementation of common spiritual principles in an organisation could lead to the problem of employees not being able to express their own view of spirituality. For example, in a *religion-based* organisation, some employees might not be willing to accept those beliefs as the common spiritual dimension. This could lead to dissatisfaction and alienation. Consequently Krishnakumar (2002: 161) concludes that, since spirituality is highly individual-specific, it is necessary for it to be implemented from the individual's perspective. He further argues that the end result of spiritual implementation based on an individual approach would be enhanced organisational performance, and better personal development of the employees, than that of a spiritually unified organisation (Krishnakumar 2002: 161).

According to Thompson (2000: 18) the encouragement of spirituality should start by encouraging people to speak openly about their spiritual ideas and helping them relate these ideas to the organisation's values. This again points towards an individual-based approach for the encouragement of spirituality. Based on the above arguments, Krishnakumar (2002: 161-2) proposes an individual-based "spiritual freedom" model of implementation. This model, represented in Figure 1 establishes the concept of spiritual freedom within an organisational setting.

Figure 1. Individual-based "Spiritual Freedom" model: incorporating and encouraging spirituality among a diverse workforce.



(Source: Krishnakumar, 2002: 162)

The basic tenets of the Spiritual Freedom model (Krishnakumar, 2002: 162) are as follows:

- People are encouraged to express their own views on spirituality.
- The organisation doesn't establish any particular spiritual principle as common to all employees.
- The organisation tries to accommodate the spiritual requests of its employees, irrespective of their different spiritual beliefs.
- Diverse spiritual enrichment in the workplace will do good through the expression of common outcomes such as intuition, creativity, honesty, trust, personal fulfilment and commitment.
- The end result is enhanced organisational performance and long-term organisational success.

5. Practical Implementation Guidelines

In this sub-section, practical strategies are offered as devised by Cacioppe (1999), Thompson (2000), Neal (2004) and the consultancy organisation, *Innovations International* (2004).

5.1 Cacioppe's implementation strategy

Cacioppe's (1999: 49-50) guidelines are in essence values-based transformation techniques that lead into undertones of spirituality. Cacioppe offers the following steps:

As a starting point, employees must identify their most important values. This forces them to focus on the core beliefs they hold in life. This process can be of major importance to employees since it causes examination of the priorities and actions in their lives and can bring out the differences between individual values and the organisation's values.

From the analyses of step one, employees can begin to question and shape their role within the organisation. Simultaneously they will reassess the value and meaning of their work. While this process can be viewed as irrelevant or even threatening, Cacioppe considers it an important part of individual and organisational learning. It can be a form of double-loop learning which re-examines goals and questions, and reassesses the very assumptions and beliefs that underlie those goals. This resonates with Senge's theory (in Cacioppe, 1999: 50) of the 'learning organisation' which examines the very reason for its existence, and the methods of operating to survive and succeed in the twenty-first century.

Employees now write value and vision statements that not only provide directions for business operation plans, but which aim to motivate and inspire commitment to a worthwhile purpose. Cacioppe (1999: 50) notes that the emphasis on teamwork, having a common organisational vision and values, and concern for the human resources, have undertones of spirituality within the themes. They often lead to statements about the workplace being a caring and nurturing environment underpinned by trust, empowerment and creativity. Individuals should now examine their own personal visions and align them with the organisation's vision.

5.2 Thompson's implementation strategy.

Thompson (2000: 19) offers an individual-centred approach which focuses on identifying existing practices that lack spirituality, and correcting these. Thompson proposes the following steps:

- Ensure that senior management is in step with the aims of the implementation.
- Find needs assessment tools that the organisation can use to give sufficient attention to the human spirit. Thompson suggests written instruments or conducting interviews that pose open-ended questions. These should encourage employees to talk freely about the intersection of their values and work.
- Re-examine existing training programs through a "set of spiritual lenses" (Thompson, 2000: 19). The organisation might find that it is already making progress in helping employees to relate their values to their work. For example, people may already know that they're important, take satisfaction in their work, function well in teams, and enjoy well-deserved compensation. But there may be areas of weakness – of dispiritedness – that can be identified by searching for the spiritual dimensions of organisational training programs.
- Target new areas for training. By way of example, numerous hypothetical situations are offered. Senior managers might be concerned about such fierce competition among teams that it threatens a project's success. Salespeople might be making claims that are not accurate or promises that are not likely to be kept. Management might be receiving reports of behaviour that is just shy of sexual harassment and the HR department is needed to pre-empt developments.

At their roots, claims Thompson (2000: 19), these are matters of the spirit – honesty, beneficence, justice and respect. They correlate to the fundamental principles of ethical behaviour. An option would be to contract a professional ethicist for further intervention. Ethical behaviour is clearly linked to spirituality, and ethical lapses violate the spirit of the employees – both the offenders and victims. Consequently integrity, truth, justice and the interconnectedness of employees suffer.

A strong argument is made for individuals to take responsibility for recovering their own spirits. Employees will be of little contribution to the cause if their own spirits are undiscovered or unfulfilled.

5.3 Neal's approach to workplace spirituality

Neal's (2004: 20) approaches suggests that workplace spirituality evolves through four stages or "gateways":

- *The Individual Path*, where she concentrates on the concepts of 'Work as a Spiritual Path' and 'Creating Sacred Space at Work'.
- *Leadership and Team Spirit*, focussing on 'Spirituality and Leadership' and 'Team Spirit and Dialogue Circles'.
- *The Organisational Soul*, which addresses 'Assessing Organisational Spirituality', 'The New Sciences and Organisational Theory' and 'Spiritual Approaches to Organisational Development.
- *The Global Consciousness Shift*, which examines 'The Enlightened Organisation' and 'Redefining the Role of Business'.

Using these sequential stages as a means to introducing spirituality into an organisation, Neal offers a variety of techniques, methods, exercises, checklists and ideas. She aims to provide viable, realistic, hands-on exercises for process of transformation. While the full range of her work on the subject is available on the website found under the List of Sources, three practical applications are highlighted.

Determining a person's spiritual evolution

Neal (2004: 21-23) suggests that not everyone is on a spiritual path right now. Consequently she describes a five stage model on the evolution of spirituality and work. This model must be understood before any practical implementation of workplace spirituality can occur.
The model does not apply to everyone, but holds true for people who are increasingly drawn to spirituality. It involves the following evolutionary stages through which an individual passes *en route* to spirituality:

- *Segmentation* - Compartmentalising spirituality and keeping it separate from the rest of life.
- *Spiritual crisis* - A major life event that deeply challenges a person's value system and their perception of the world.
- *Dark night of the soul* - A time of searching for answers, restructuring values, rediscovering the importance of spirituality.
- *Right Livelihood* - A moment of grace where things suddenly fall into place - often the driving force behind entrepreneurship, or the desire to create a workplace that is not in conflict with deeply held values.

- *Beneficial presence* - Inner development and working with the spiritual world for the good of mankind.

These sequential steps occur naturally to many people. Equally the model may not be for all people – some cycle through two or more stages several times before finally moving to a more advanced stage. In addition, difficult life experiences can quickly send individuals back to an earlier stage. In her research, Neal encountered a small handful of people, about 5% of interviewees, who did not fit the above model (Neal, 2004: 22). She refers to them as 'Old Souls'. They seem to have been born knowing who they are and what they want to do in life. They are not aware of any major crises or difficult times in their lives. There is a calmness about them, and they seem to walk the path of their destiny from an early age. Against the background of the above stages, individuals either want to incorporate spirituality into their working environment, or deem it unimportant for the moment. Employers must consider the unique circumstances of each employee with respect to this journey, and not immediately expect buy-in from people simply because, for example, the CEO is walking an enlightened path.

The paths to mastery

Neal (Neal, 2004: 23-25) proposes that in order to make work a part of the spiritual path, individuals must gain mastery in five domains: Mental Mastery, Emotional Mastery, Physical Mastery, Relationship / Team Mastery, and Organisation Mastery. Mastery in these domains leads to increased personal and professional effectiveness, reduced stress, and increased enjoyment of life and work. Groups of leaders should be taken through this process to personal and professional transformations. Neal suggests a program consisting of a weekend retreat, three months of online learning and discussion and closure in the form of another weekend retreat. Neal reports that participants have, after three months, reported significant health improvements, an increase in energy and creative thinking, improved business relationships, and measurable improvements in business results in their work units.

Building Team Spirit: A Five Stage Process

Neal (2004: 79-80) outlines a process that inspires and energises teams by adding a spiritual focus to team development. The process has five stages to it, based on her understanding of how groups grow and evolve. Equally, the five stage process applies to individuals, couples, teams, and organisations. At the core of the Team Spirit Process is the spirit of service. This is based on a conventional workplace objective that 'the team exists to serve its customers. Each of the stages of the team's development helps to move it towards greater realisation of its purpose in being of service to others.

Stage 1: Initiating
In this stage the team members get to know one another and begin to build relationships. Story telling is a very useful process in this stage, as well as many of the others. When a team successfully engages in the initiating process, there is a sense of belonging, positive orientation, and mutual trust. These feelings permeate the team, empowering it to define and accomplish its work effectively.

Stage 2: Visioning
This is the process of being willing to move into unknown territory and create what's never been created before. During this stage the team clarifies purpose, core values, and beliefs that will support the team in being able to provide better service to its customers. They distinguish current reality from the vision it holds for the future in an attempt to create dialogue on the outcomes of their work together. Neal lists numerous group exercises appropriate for this stage of the course (Neal, 2004: 79).

Stage 3: Claiming
Here the team takes ownership of the goals and individual roles as members, and as a group. This is the stage of committed action. A powerful force that strengthens this stage is the commitment that team members have to support the development of team members, and the willingness and capacity to obtain organisational support for team goals. Once again Neal refers to practical exercises that are optimal for achieving the desired responses at this stage (Neal, 2004: 79).

Stage 4: Celebrating
The result of a successful claiming stage is a visible and felt improvement in service to the customer, and this deserves acknowledgment and recognition. The spirit of the team is ignited and nurtured in *Celebrating*. This phase of the process helps nurture the further work of the team. It provides a sense of unity and spirit. Energy is created by celebrating what has gone well and by providing recognition to individuals and teams. It is an energy that feeds on itself and produces more success. This stage creates an increased level of energy and enthusiasm in the team.

Stage 5: Letting Go
This stage is about telling the truth about the team's experiences over time, and letting go of frustrations, conflicts and disappointments. Letting go is the capacity to enter into and embrace the shadow in the team's life. Neal emphasises the importance of leaders entering into and embracing their shadows or "finding the gold in the shadow" (Neal, 2004: 80). The possibility of spirit within a team lies in *Letting Go*, in bringing what is unacceptable into the light and transforming it into useful energy.

In summary, Neal aims in this team exercise to produce a spirited, high-performance approach to customer service. An interesting fact about the *Team Spirit Process* is that it never focuses on a team leader or the idea of leadership. The team itself must become a conscious entity that needs nurturing and development.

5.4 'Innovations International' guidelines to workplace spirituality

These suggestions are taken from the website of consultants *Innovations International* who offer a full range of useful procedures. Under the 'FAQs' page, the answers provided to respondents' queries give valuable insight into practical strategies. Regarding the introduction of spiritual practices, they offer the following:

Workplace activities that are spiritually sourced include:

- Bereavement programs.
- Wellness information displayed and distributed.
- Employee Assistance Programs.
- Programs that integrate work/family.
- Management systems that encourage personal and spiritual transformation.
- Servant leadership – the desire to serve others first in preference to self.
- Stewardship – leadership practices that support the growth and well-being of others.
- Diversity programs that create inclusive cultures.
- Integration of core values and core business decisions and practices.
- Leadership practices that support the growth and development of *all* employees.

Leadership's role in promoting spirituality includes:

- Appointing a committee to define how spirituality plays out in the organisation – including an appropriate definition of "spirituality in our workplace."
- Defining how spirituality is (or can be) integrated into the strategic plan.
- Undertaking a Spirituality Survey.
- Making certain that performance surveys include an evaluation of how effectively organisational core values are practiced.
- Creating an environment of trust where employees feel safe to question, learn and contribute.
- Requiring personal development seminars, including values clarification and expected humanistic behaviours.
- Being an example of the humanistic values expected of others.
- Promoting diversity because it is a moral and ethical statement of the spiritual belief in human equality.

How to introduce personal spirituality into a workplace where spiritual principles are not valued or practiced:

Realise that integrating spirituality into a person's life results in stress-reduction, centeredness and personal stability. Spirituality is an individual's source of personal adaptation in a chaotically changing workplace and world.

Adapting to workplace practices begins with:

- Redefining the five most important personal values that are spiritually sourced, such as family, personal time, creativity, religious practices and health.
- Defining personal workplace values, such as money, equality, empowerment, respect, quality relationships, making a difference.
- Comparing personal values with the practiced values of the workplace, such as competition, self-interest, control, hierarchy, as well as empowering humanistic values.

If personal values and organisational values are significantly out of alignment, an individual has important decisions to make. They can remain and non-reactively accept the situation (because the workplace benefits are too great to give up). Alternatively they can remain and work to change the culture, accepting whatever consequences may occur. Further they could begin looking for a workplace that is more compatible with their values—then decide to leave. Finally, they could start their own small business. The following advice is offered: employees are not required to participate in political games or other non-spiritual activities. Most of all, if a person can identify with the pain others experience in counterproductive behaviours, their relationship and hence their influence with them will transform.

How to address workplace spirituality when corporate leaders are hesitant to speak thereof owing to its religious or legal implications:

The appointment of an organisation-wide committee is suggested to explore how spirituality might impact the workplace, customers or productivity. Include a legal expert as part of the committee to ensure that legal problems are avoided. Then have the CEO use this report as a basis for the discussion of spirituality and its workplace implications.

6. Measuring Spirituality in the Workplace

Firstly, an individual's response to meaning and spirituality in a given workplace can be assessed. The data obtained can be analysed into meaningful information that indicates what features of the organisation's culture give participating employees the most meaning and purpose.

Secondly, the outcome of spirituality in an organisation can be measured in both a quantitative and qualitative manner. Measurement criteria are offered in the second sub-section below.

Workplace meaning and spirituality questionnaire
The questionnaire's aim is to determine, in rank order, the items that give participants the most meaning and purpose in their work. The individual questions assess how would-be participants:

Experience meaning at work.
- Assess their own organisation's reaction to issues of meaning.
- Distinguish between religion and spirituality.
- Practice personal spirituality (or do not do so).
- Apply their interpretations of divinity at work.
- Judge and react to the values held by their organisations.

It is recommended that the data obtained from the above questionnaire is collated into quantitative categories. This indicates the size, range and characteristics of the sample group. An example is given in Appendix I.

Finally, the data should be analysed into useful information that directly responds to the questionnaire's objectives. In rank order, the analyses should indicate the items that give participants the most meaning and purpose in their workplaces. An example of the Data Analyses is given in Appendix J.

Models that measure the positive outcomes of spirituality in business
The following objective measures of business success can be measured in correlation with the increased introduction of spirituality in an organisation:
- Financials:
- Income / revenue.
- Profitability.
- Asset growth.
- Productivity as measured by units produced per man-hour or annual sales per employee.
- Labour costs as a percentage of sales revenues.

Others:
- Absenteeism.
- Workdays lost owing to poor health or injuries.
- Individual measures such as blood pressure, breath rate, heart rate and other stress-related symptoms.
- Reduction in customer complaints.
- Comparison with archived statistical data.

Heaton, *et al.,* (2004: 74) concludes that measurement should take place against a wide background, bearing in mind that the ultimate measure of improvement lies in a positive reaction to the intangibles such as adaptability to change, satisfaction in work relationships, nurturance in leadership, and social and environmental responsibility in business practices.

7. Conclusion

This article report has shown conclusively that many people want to find meaning in their work. However at times this is at odds with the organisation's aims. This is partly the result of contending worldviews where scientific rationality encourages separateness, as in physical matter, as opposed to interconnectedness. In the workplace this separateness positions employers against employees in the pursuit of a financial bottom line, with little time left to address notions of meaning. Employees become dispirited as evidenced in low morale and performance. The argument is made that spirituality, a phenomena increasingly embraced in the first world, provides meaning to individuals, and that it could be positively applied within the workplace environment. Spirituality provides purpose and is an antidote to meaninglessness. New concepts like SQ have come to the fore embracing a new sense of the sacred that incorporates personal growth psychology, the spiritual realm and service to others.

Business is undergoing a spiritual awakening following the social and economical changes of our age. These include international terrorism, globalisation and mergers that result in downsizing and job insecurity. In addition people are more sceptical towards big business as financial scandals within large organisations come to the fore. As a result people are increasingly demanding meaningfulness and purpose in their workplaces. It has been shown that spirituality in the workplace benefits all stakeholders as productivity increases and multiple bottom lines improve. Individual and organisation-centred approaches towards transformation are occurring within organisations. Numerous organisations are aligning personal and workplace spirituality, providing meaning and fulfilment to their employees.

This article has offered practical guidance for implementing and measuring workplace spirituality. Research suggests that more and more consultants are providing such services and breaking new ground in the application of business spirituality. Measurement of an organisation's transformation must be imaginatively and realistically determined in order to provide stakeholders with tangible value.

In conclusion, Wong (2003: 6) argues that measurement, while desirable, should not be the sole focus of attention. Even with an absence of measurement, he proposes that the spiritual movement is probably the most significant trend in management since the human-potential movement in the 50s. It appears to be a grassroots movement, as more and more people entertain the notion that work can be meaningful and fulfilling. It has been fuelled by the Enron debacle and others, resulting in the serious re-evaluation of spiritual and moral values. The authors believes that this trend will endure, simply because it speaks to the deeper needs of the human heart, and provides a promising remedy to declining job satisfaction.

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Internationalisation of the New Zealand Outdoor Clothing Brand Industry

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Abstract

This study looked at whether the New Zealand outdoor clothing brand industry followed the New Zealand process of internationalisation as proposed by Campbell-Hunt et al (2001) in their book World Famous in New Zealand. Findings from the study show that some factors of the New Zealand process hold true for New Zealand outdoor brands such as the use of networks whilst others do not such as the high mix/low volume manufacturing strategy.

Some implications of the study suggest that New Zealand outdoor clothing brands should collaborate with one another in order to leverage their core competitive advantages such as design and innovation to compete more effectively in the global marketplace. In addition, New Zealand outdoor clothing brands may want to try to market their offerings to countries further away from those perceived to be closer in psychic distance.

Keywords: internationalisation, outdoor clothing, branding, New Zealand

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Introduction

This empirical study seeks to explore if New Zealand firms follow their own unique method of internationalising as proposed by Campbell-Hunt et al (2001) in their book *World Famous in New Zealand*. The key finding that Campbell-Hunt et al identified was that internationalisation strategy is largely influenced by the distinct context in which the firm operates. In the case of New Zealand firms, they operate in a very small isolated economy in comparison to the major open markets such as America and Japan.

This distinct context means that a high rate of expansion from a small isolated domestic base is inevitable and can make the whole internationalisation process very risky i.e. managing the gusher. When we couple this risk with a limited resource base, this means that successful New Zealand firms, which are flourishing internationally, must be doing something right and different to the traditional stages of development model, which has been associated more with firms in larger economies such as those mentioned above. Campbell-Hunt et al also view that the New Zealand process is more akin to the "Born Global" perspective, which will be discussed further in the literature review section.

The sector that we have chosen to analyse is the New Zealand outdoor clothing brand sector. This sector is spread out all over New Zealand and is a high profile sector in New Zealand for a number of reasons. Firstly, it reflects New Zealand's affinity for the natural environment as well as such international success stories as Icebreaker and Untouched World, which have raised the profile internationally. These two brands are highly innovative and ones that New Zealander's can recognise and identify with, Icebreaker has been claimed to help put New Zealand merino wool on the map and Untouched World's unique marketing promotions has found its products in many Hollywood gift baskets. The main markets for New Zealand apparel including outdoor clothing brands include Australia, the UK and the USA in which these three markets make up 80% of New Zealand's apparel exports (Market New

Zealand). Apparel exports for the year ended June 2006 were NZ $197 million (Trade and Enterprise New Zealand). Currently markets in Asia and the Middle East are showing growing levels of interest in New Zealand apparel which bodes well for the industry. Recently controversy has hit the outdoor clothing brand sector as more and more iconic New Zealand brands such as Swanndri and Icebreaker go overseas to low cost countries such as China to manufacture. In addition, debate has revolved around the made in New Zealand versus designed in New Zealand issue specifically in regards to the Green Party's Buy Kiwi Made Campaign. It will be interesting to see how factors such as these have influenced a company's internationalisation strategies.

Research Aim and Questions

The aim of the research project is to see if New Zealand outdoor clothing brands follow the New Zealand process of internationalising (i.e. sow and reap, focus and grow.. strategy) as proposed by Campbell-Hunt et al in their book "*World Famous in New Zealand*". In addition, considering the made in vs. designed in New Zealand debate is particularly relevant to this study, we will also be briefly looking at how this has impacted on companies decisions to manufacture domestically or offshore. Therefore we propose the following research questions:

1. Do New Zealand outdoor clothing brands follow the New Zealand process of internationalising as described by Campbell-Hunt et al in the book "*World Famous in New Zealand" i.e*. the New Zealand Process?
2. How has being a New Zealand company affected a company's decision to manufacture domestically or offshore and how do they view the current made in vs. designed in New Zealand debate?

Literature Review

In the last few decades, we have seen a huge rise in firm internationalisation, which has been propelled by significant advancements in such areas as technology, management and transportation. Such significant advancements means that internationalisation is no longer the domain of large multi-national corporations and we are now seeing more and more Small to Medium Enterprises (SME's) internationalise. For this study, we will be using the generally accepted international cut-off point of fewer than 50 employees for our definition of SME's (European Commission, United Kingdom).

Another reason for the increased growth in SME internationalisation is because larger firms in order to reduce costs outsource certain production/service tasks to SME's. In addition, SME's have been able to internalise successfully as technology such as the internet means that they can market and communicate their niche products/services to a global market. As the world moves closer towards a global middleclass, consumers are generally becoming more discerning and demand more customised products in which SME's can charge a premium. We will be looking at the internationalisation of SME's as New Zealand firms are characterised as SME's in terms of their much larger global counterparts.

Internationalisation Defined

For this study, we will use the very general definition of internationalisation as defined by Welch and Luostarinen (1988) "the process of increasing involvement in international operations".

This "increasing involvement in international operations" can take many forms as described by Young (1990) which include, exporting, licensing, franchising, management contract, turnkey contract, contract manufacturing, co-cooperation agreements, joint ventures, equity, wholly owned subsidiaries, mergers, acquisitions and lastly strategic alliances.

Psychic Distance

It is believed that most firms internationalise to markets, which have a close "psychic distance" (Zafarullah, 1997). Psychic distance is a term used to describe how far a country is in terms of not only its physical distance but also in terms of a number of factors such as differences in language, culture, religion and business practices. This is important as the more likely a firm can adapt to a different business environment, the more chance of success it will have in that environment.

A number of studies such as those by Styles and Ambler's (1994) support the fact that firms should focus on countries, which are closer in "psychic distance" for early export endeavours when international experience and knowledge is lacking. However, studies such as those by Czinkot and Ursic (1987) believe that as the world becomes more global, psychic distance is becoming less of a concern. The problem with psychic distance is that some companies' often over-estimate market similarities and can make fundamental mistakes (O'Grady & lane, 1996). An example could include the poor performance of the Warehouse in Australia.

The Stages Model

The Welch and Luostarinen definition is closely related to the stages model of development proposed by Johanson and Vahlne (1977) which describes internationalisation as a sequential process beginning with indirect exporting (for example through an agent) to Wholly owned subsidiaries or "full globalisation" (Exhibit A). This increased involvement stems from increased international market knowledge and experience, which reduces a company's perception of risk thus; they commit increasing resources to international operations.

Weidersheim-Paul et al (1978) added to the stages of development model by proposing that a pre-export stage should be present. They identified such factors as the key decision maker, managerial ambition, the environment, excess capacity and external attention-evoking stimuli such as unsolicited international orders, which is likely to influence whether a firm decides to internationalise.

Born Global

It is argued that that stages of development model is not applicable for such a dynamic concept as internationalisation (Bell, 1995). The opposing view of the stages of development model is the concept of "born globals" also known as "global start-ups, "international new ventures", high technology start ups" and "committed internationalists". For this study and to avoid confusion, we will be using the term born globals. Born globals are companies, which have operated in their domestic markets for relatively short periods of time to suddenly having very high levels of internationalisation. This is not be confused with "Late Starters" which operate in their domestic markets for a long time before beginning to internationalise. This "born global" phenomenon has emerged very recently largely from developments in such high-tech industries as telecommunications, auto-aerospace, dot-com and software. These are knowledge based industries where relatively low levels of start-up are required, this phenomenon was particularly evident in the dot-com boom of the late 1990s.

The Network Theory

A network is defined by Sadler & Chetty (2000) as "a set of two or more connected exchange relationships". As a firm first begins to internationalise via exporting and begins to interact with foreign markets, they develop relationships with various key actors in these markets such as suppliers, customers and distributors i.e. networks. In addition, from the first international step a company takes they are building up a level of international experience and knowledge. Network theory suggests that firms commit more resources internationally as this experience and knowledge grows (Styles & Ambler, 1994). In network theory, key actors all play crucial roles, a company's network can both facilitate and impede internationalisation strategy based on the quality of their network. Network theory is seen as somewhat opposing the psychic distance argument as many firms internationalise to markets, which may be very "distant", but key actors in a firm's network may be established in those markets (Johanson & Valhne, 1992).

Resource- Based View

The resource-based view argues that a firm should identify its core competencies and resources and match those with international opportunities and threats. This includes the management structure of the firm, strategy of the firm, environmental factors, industry structure, competition and so on (Turnbull, 1987).

Pre-Export Behaviour

In the stages of development model review, we briefly looked at Weidersheim-Paul et al (1978) suggestion of a pre-export stage. They identified such factors as the key decision maker, attention-evoking stimuli and history of the firm, which are all likely to influence whether a firm decides to internationalise. Below we will look at some of these factors in more detail:

Albaum, (1994) identified four categories of attention evoking stimuli, these are as follows:

1. Internal-proactive i.e. factors associated with the SME's own initiative to exploit its unique internal competencies e.g. new innovative technology
2. Internal-reactive i.e. responding to pressures from the internal environment e.g. surplus supply
3. External-proactive i.e. active exploitation by management of market possibilities e.g. identifying gaps in overseas markets
4. External-reactive i.e. reaction to factors from the external environment e.g. unsolicited foreign orders

Decision Maker

In order for internationalisation to occur, it is of utmost importance that the key decision maker in the firm, particularly important in SME's is motivated to and has the right characteristics to internationalise, (Reid, 1981 & Miesenbock, 1988). Boatler (1994) suggests that those with an international orientation e.g. foreign work experience, speak another language and has travelled extensively are more likely to internationalise. Referring back to the network theory, it is suggested that if the key decision maker has many foreign contacts they will be more likely to exploit them. Other than international orientation and business networks, personality traits are also important. Ford and Leonidou (1991) identified a number of traits, which include, lower risk perceptions, self-confidence, dynamic and flexible.

Firm Characteristics

Looking at the firm, management commitment and management perception towards export issues are good indicators of international behaviour (Aaby & Slater, 1989). Aaby and Slater found that firms with a more planning and exploration orientation are more likely to internalise. There has been a lot of controversy surrounding the issue of firm size and as a general rule of thumb, it is believed that larger firms are more likely to internationalise than smaller firms as they have more resources and managerial experience. Withey (1980) identified a threshold of 20 employees in which to continue firm growth, the firm must internationalise. In regards to firm size, a number of developments are opposing the general view as technology such as the internet and more affordable transport costs means that it is easier for smaller firms to internationalise even with limited resources. Other firm characteristics include type of industry (Tybejee, 1994) e.g. innovative industries with short product life cycles are more likely to internationalise for example software and the competency of the firm (Aaby & Slater 1989) which includes R & D, management skill etc.

Environmental Characteristics

Looking at the environment around the firm is important as certain factors can facilitate (e.g. tax advantages) or impede (e.g. tariffs) internationalisation. This includes the domestic market in which the firm operates and the market in which it seeks to internationalise. The environment can have a huge impact in a firm's decision to international as poor distribution and legal infrastructure may deem it to costly to enter a particular international market.

Barriers to Internationalisation

Leonidou (1995) has defined export barriers as "all those attitudinal, structural, operational and other constraints that hinder a firm's ability to initiate, develop or sustain international operations. Barriers to internationalisation can exist at any stage of the internationalisation process (Morgan, 1997) and even though a firm may be established in a number of markets and have years of international experience, this does not mean that they too, do not continue to meet new barriers to internationalisation (Burton & Schlegelmiclch, 1987). Shaw and Darrach (2004) propose that barriers to internationalisation can be categorised under five broad areas: financial, managerial, market-based (domestic and international), industry specific and firm specific. Some of the most significant barriers to internationalisation include lack of foreign contacts, high initial start up costs, lack of knowledge regarding international opportunities and insufficient personnel.

The New Zealand Perspective

The New Zealand Process

Campbell Hunt et al (2001) has proposed two key differences in the context of New Zealand firms, which plan to internationalise:

1. The scale of expansion from a tiny home base, and the rate of growth it requires (the gusher) make the whole process distinctively risky.
2. These firms bring very limited resources to bear on the huge task of going global in a short period of time.

By looking at a number of New Zealand firms, he has proposed the New Zealand process of successful internationalisation: (Exhibit B)

The first stage of the New Zealand process is the "sow and reap" stage, this essentially means testing your product in a number of markets in order to gauge the level of product demand in each individual market. The focus and grow stage seeks to look at the most responsive markets in which you further focus your limited resources on developing those markets for example through various marketing promotions. The third stage includes the use of networks and partners, this is seen as a way of making up for the limited resources that a company may have i.e. through collaboration rather than competition, companies can compete more effectively in international markets.

The high-mix/low-volume manufacturing stage means focusing on product variety as it is not economical for New Zealand firms to compete with mass manufacturing countries such as China. An example of a New Zealand firm using this strategy is electronics manufacture Tait which specialise in a variety of high quality range of electronic communications equipment. Lastly is the consolidation of manufacturing stage in which companies retain manufacturing in New Zealand and source individual components domestically as this is seen as being more efficient as turnaround times are quicker. However, recently we have seen a lot of debate on this issue as companies can gain higher economies of scale in other countries. This New Zealand process is said to be a product of the New Zealand culture in which ingenuity, "can do" attitude, broad range of experience and expertise and openness of communication can be found within New Zealand firms internationalising.

Networks

Because New Zealand is such a small and isolated economy and New Zealand SME's are often characterised with having limited resources, networks are especially important and a number of studies have looked at this phenomenon in New Zealand (Chetty, 1994, Sadler & Chetty, 2000, Coviello & Munro, 1995 and Gray, 1994). The main benefits of using networks include obtaining market knowledge, sharing resources and technology and learning from each other's international experiences. Another key benefit is collaboration with competitors so as a co-operative they can compete more effectively with their international counterparts. Firm's can also use network relationships to identify and take advantage of foreign opportunities and speed up the internationalisation process e.g. through distribution channels.

Barriers

A study by Shaw and Darrach (2004) found that the main five barriers to internationalisation of New Zealand firms (non-exporters, likely exporters and exporters) included limited financial resources, high costs of selling abroad, limited access to capital, limited knowledge of overseas market opportunities and the lack of government assistance /incentives to export. Other research has reinforced the fact the limited financial resources and limited access to capital is a major impediment. There was a lot of similarity between the three groups though the main perceived barrier for non-exporters was firm size and limited financial resources for the other two groups.

The New Zealand Apparel sector

The apparel industry was one of the most protected industries in New Zealand up until 1984 when economic deregulation was introduced and tariffs on imported apparel fell significantly. Ever since the industry has been in a constant restructuring mode with many manufactures going overseas where higher economies of scale can be obtained. No sector of the apparel industry has been left unaffected and there has been significant controversy as more and more iconic New Zealand outdoor clothing brands go overseas citing lower costs and better production technologies as there main reason. However, there were many positives to come out from the deregulation of the economy in the mid-1980's as New Zealand companies were required to innovate and work together as international competition increased in the domestic market

Methodology

In terms of New Zealand outdoor clothing brands, we conducted a empirical study and identified 21 companies through an in-depth internet search of New Zealand directories and selected all of which had some form of international standing i.e. had product available in another country other than New Zealand. A list of the companies initially contacted can be found in the appendix a. We initially emailed each company with an attached survey and a brief introduction outlining the project so that it could be issued to the appropriate person in the organisation, an example of the survey can be found in the appendix b. This method proved to be very ineffective and lead to a zero response rate. So we followed up each company with a phone call and asked to speak to the appropriate person, the person was then asked for ten minutes of their time in which the survey was conducted. If the appropriate person were unavailable, we would request their email address and send them an introductory email and the attached survey. In addition, we received a number of responses from those who could not participate in the study, they noted relevancy issues, as they did not think that they would be suitable for the study and noted their reasons why, these included low levels of internationalisation, currently moving away from adventure clothing towards fashion garments etc. Other mentioned reasons were fairly general such as "too busy" or cited the competitively sensitive nature of the survey.

Findings

Based on the findings of this study, we can conclude that New Zealand Outdoor Clothing Brands can be classified as SME's with companies on average having fewer than 25 full time employees. These companies as we suggested in the literature review section are more akin to the born global perspective with companies having an average of two years of operation before their first internationalisation move. Psychic distance was also evident as companies often noted the same major international markets, which included Australia, the UK and the EU. Other major markets, which were often noted, included the USA, Canada and Japan.
Reasons for internationalising to such countries included the lower costs and cultural and market similarities associated with these regions. In regards to the level of product being exported, percentages ranged from 15% to 70%.

In regards to attention evoking stimuli, companies noted interest and enquiries from foreigners visiting New Zealand and commenting that the companies should take their brands overseas. Another factor which was identified was that companies knew that they had a world-class product on their hands and that their would be a market for them internationally for example high quality wetsuits for international triathletes. The benefit of going international as one company noted was that it helps to spread out the fixed costs, in addition the higher sale volumes from international sales are helpful when manufacturing minimums are high i.e. ex. China.

Being a New Zealand company did influence some companies decisions to internationalise as they could capitalise on the New Zealand image and reputation which had a particularly high standing in regards to the International outdoor clothing brand industry in which New Zealand made products were known for there performance, durability, reliability and design, others noted that this had little effect. In addition to the high reputation of the New Zealand outdoor clothing brand industry, one company also noted New Zealand's sporting success as a huge sales lever and New Zealander's reputation of being friendly and easy to deal with. One company noted that Australia was a particularly viable market as they viewed New Zealand as a true outdoor adventure playground in which New Zealand outdoor clothing brands could capitalise on. However, this company also noted that this reputation and image has been decreasing in the last few years, which can probably be attributed to the high number of New Zealand brands going offshore to manufacture.

Companies surveyed did not particularly identify with the sow and reap/focus and grow strategy. Some companies specifically selected countries based on psychic distance factors or countries in which product demand would be greater whilst some gradually built up relationships with key international retailers. In regards to the first international experience, companies noted very positive factors such as exceptional sales growth and "relatively straightforward" were the comment from more than one CEO. One example of a very positive experience was that one company supplied 60% of the international triathlon athletes at the 1996 Sydney Olympics one year after being founded. Younger companies did not yet face managing the gusher issues, as they were still able to estimate demand and manufacture accordingly. Companies, which outsourced production saw this as a way to manage any potential gushes. A company which did face a managing the gusher the issue identified the need for flexibility and adaptability in the company. In addition, to cope with increase production and facilitate efficient distribution from their Chinese manufacturers, they set up an office in Hong Kong to assist.

In regards to networks, some noted that they have been a factor in successful internationalising such as finding distributors and sales agents and these have been through personal contacts, contacts met through trade shows and government organisations such as NZTE (New Zealand Trade and Enterprise). One CEO noted that networks were important in gathering "fresh information about the next re-seller level in the supply chain". Another commented that "its half what you know and half who you know". Others noted that networks were not so much a factor and word of mouth and reputation are better. For the majority of companies, most noted the networking and collaboration with competitors was not a factor to international success.

The argument for the high mix/low volume was also found to not hold true as many companies concentrated on low mix/low volume to reflect the high quality of their products and the possibility of catering to customised and specified needs. In terms of the made in New Zealand and designed in New Zealand debate, we had responses from both sides of the argument. Those whom manufacture offshore do so as a response to increased domestic competition and they see it as step towards being a global company as New Zealand does not have the mass manufacturing capabilities nor the economies of scale that foreign manufacturers can provide. One CEO commented the made in New Zealand perspective is an "ideal" it is not realistic. Another noted that the argument is more of an "emotional one than a logical one" as New Zealand production costs are just too high. Another comment was that resellers have moved on from the fixation of having to have everything made in New Zealand and they now accept that it is inevitable for products to be made overseas. Technology was another factor in the New Zealand made and designed debate as New Zealand does not have the manufacturing capabilities to produce certain garments for example airlite panels for wetsuits

Those that choose to stay in New Zealand to manufacture do so for a number of reasons such as control and consistency of production, maintain core competencies, maintain a sense of New Zealand achievement, provide local employment and cater for consumers who are still looking for good New Zealand made products. These companies are also fearful that as New Zealand manufacturing moves more and more offshore we will completely lose our manufacturing base in which we will become a country of "pragmatic designers" without having practical manufacturing skills and knowledge.

Proposed updated New Zealand process model

Based on these findings, we propose an updated model of Campbell-Hunt et al's model of the New Zealand Process of Internationalising: Exhibit C)

This model shows that the main factors, which contribute to initial country selection, are psychic distance and product demand. Based on findings from the survey the sow and reap/focus and grow internationalisation strategy was unfounded. For the next stage, we have selected to use the term "personal and initiated networks" as firms noted that networking with competitors was non-existent. These personal and initiated networks include contacts overseas, contacts met through tradeshows and organisations such as New Zealand Trade and Enterprise. The high-mix/low-volume strategy was also found to be non-applicable so we have altered this to a low-mix/low-volume, which reflects the companies' strategy of maintaining a high quality and exclusive image. Companies often noted that they also had the ability to produce low levels of customised products for buyers. In terms of the next stage, we have divided this into two factors, for companies who see growth and technology as more important they will be more likely to manufacture offshore whereas those who are less concerned about growth and technology will be more likely to stay in New Zealand and manufacture domestically.

Conclusions and Implications

As we can see, some aspects of the New Zealand process hold true for New Zealand outdoor clothing brands whilst others do not. Implications from this study are that we can see room for improvement in such areas as the collaboration of companies in the industry so that they can compete more effectively internationally and the need for New Zealand companies to expand the markets they distribute to rather than focusing on those based on "closer perceived psychic distance". Further research could look at different sectors in the economy as New Zealand outdoor clothing companies are very technology based so the need for offshore manufacturing may be higher. In addition, considering that technology and innovation is a key differentiator in the market, this may explain the non-existent collaboration of companies in the sector. Overall, we think this study adds to the New Zealand literature of internationalizing as it presents another perspective of a sector which has not been looked into previously.

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Appendix a:
New Zealand Outdoor Clothing Companies Identified

These were companies identified by the researchers as New Zealand Outdoor Companies with an international standing i.e. available in countries outside of New Zealand.

- Macpac
- Swanndri
- Icebreaker
- Untouched World
- Swazi
- Adventure Outfitters
- Huntech
- Norsewear
- Groundeffect
- Line 7
- Earth sea and Sky
- Orca
- Huffer
- Silkbody
- Rodd and Gunn
- Dorlon
- Kathmandu
- Groovestar
- 43 South
- Thermatech
- Fruition

Appendix b:
New Zealand Outdoor Clothing Brands
Internationalisation Survey

If you could please take a few minutes of your time filling out this survey and emailing it back to me that would be great (Type in the blank areas, feel free to write as much as needs be and if commercially sensitive information is concerned, just leave blank).

Thank you very much again for your time and effort and just email it back to me as an attachment once you have completed the survey.

Yours Sincerely,

General

Please answer all questions accordingly and if so expand on and give examples. If commercially sensitive information is concerned, please leave blank. Thanks.

1. What is the name of your company?

2. What is your name and role in the company?

3. How many employees are in the company?

4. In what year was, your company founded?

5. What is your company’s approximate annual turnover?

6. In what year did your company internationalise? (I.e. first time your product was available in another country)

7. How many countries are your products available in and what are your key international markets?

8. How much percentage of your product would you say goes to your international markets?

Internationalisation

9. What influenced your first decision to internationalise? (E.g. international enquiries, excess supply, saw market opportunities overseas etc)

10. How did being a New Zealand company affect your reason to internationalise? (E.g.. wanting to take New Zealand products to the globe)

11. Did you first internationalise using a sow and reap/focus and grow strategy? (I.e. internationalise to several markets then focus marketing efforts on those responding positively) or did you follow a different method?

12. What markets did you first internationalise to and why?

13. How did you fair with your first international experience?

14. Did you have a "managing the gusher" experience i.e. extremely high rates of orders and how did you cope with the new level of demand? Did you have to make any changes to the company e.g. take on new staff, hire managers with international experience etc?

15. How have you used networks to internationalise and how have these been a component of your international success?

16. Have you used networking with any of your competitors to leverage overseas opportunities e.g. sharing knowledge, distribution channels, technology etc?

17. Have you focused on a high mix/low volume strategy to internalise? (I.e. product variety vs. mass manufacturing).

Made in New Zealand Debate

18. How has being a New Zealand company affected or not affected your decision to go overseas or stay in New Zealand to manufacture?

19. What do you think of the New Zealand made vs. New Zealand design debate?

Other

20. Do you have any other comments?

Thank you once again for taking the time and effort to fill out this survey, your responses will be invaluable to my project.

Exhibit a: Stages of Development Model

SME in domestic market

↓

Indirect Exporting

↓

Direct Exporting

↓

Wholly Owned Subsidiaries

Source: Johanson & Vahlne (1977)

Exhibit b: New Zealand Process Model

Sow and Reap

↓

Focus and Grow

↓

Use of Networks and Partners

↓

High-mix/low-volume manufacturing

↓

Consolidation of manufacturing in New Zealand

Source: Campbell-Hunt et al (2001)

Exhibit c: Proposed updated New Zealand Process Model

Country Selection based on:

- Psychic Distance
- Product Demand

↓

Use of personal and initiated networks

↓

Low-mix/low-volume manufacturing

↓

Importance of Growth/Technology

High-Manufacture Offshore

Low Manufacture Domestically

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Do HR Issues have an Impact on HR Effectiveness and Organizational Outcomes?

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Abstract

This study aims to discuss impact of HRM issues on effectiveness of HRM and organizational outcomes. HRM issues confronted in implementation such as validity of selection tests, transfer of training, prejudice, unfair and injustice practices in interview, performance evaluation and reward distribution might decrease the effectiveness of HRM. Thus, firms should remove these issues to increase the effect of HRM on organizational outcomes, i.e., firm performance, employee commitment, job satisfaction, motivation, productivity, organizational support, efficiency, and expected attitudes and behaviours.

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Introduction

Literature studies demonstrate relationship between HRM and firm performance. In the US HRM model, HRM influences firm performance through human capital and resource-based view. Human capital is related to knowledge management and learning organization. Resource-based view is related to innovation, competence and capabilities. Therefore, literature studies in the US (Arthur, 1994; Huselid, 1995; Becker, Gerhart, 1996; Delaney, Huselid, 1996; Huselid, Jackson, Schuler, 1997) explore relationship between HRM and firm performance in a simple linear relationship, i.e., a universalistic perspective in HRM.

Because US firms are knowledge-based organizations, and have innovation capability, competence and capabilities. In contrast, a contingency perspective can be seen in organizations which do not possess these required organizational factors to achieve firm performance. However, literature studies also show a number of HRM issues that can decrease effectiveness of HRM in achieving organizational outcomes such as firm performance. Therefore, firms should remove these issues to enhance impact of HRM on firm performance. Thus, this study aims to discuss these issues and their possible impact on HRM.

1. Impact of HRM on Human Capital

HRM is a strategic lever for human capital (Becker, Gerhart, 1996) through improving occupational specialization of employees (Huselid et al., 1997: 173). Therefore, human capital influences firm performance directly on its effect on employee performance, and indirectly on employee attachment to the firm (Batt, 2002: 588). For example, human capital increases the employee contributions in production processes (Youndt et al., 1996: 839). Moreover, HRM is positively related to sales growth (Batt, 2002). Because employee knowledge about firm's products, customers and work processes enables them to interact effectively with customers. In addition, HRM practices promote employee behaviour, knowledge sharing and organizational learning; therefore, positively associated with entrepreneurial performance in SMEs (Hayton, 2003). Firm-specific knowledge, skills and abilities build organizational capabilities that improve business performance (Yeung & Berman, 1997: 321). Therefore, Delaney and Huselid (1996) found that HRM practices that affect on employee skills and motivation and the structure of work are positively related to organizional performance. Thus, firms link human-capital-enhancing HR systems with a quality manufacturing strategy to improve firm performance (Youndt et al., 1996: 836).

Firms can adopt HRM practices to increase human capital such as staffing and selection, training (Delaney, Huselid, 1996: 951). Firms use selection procedures to recruit best-potential employees, and use training to develop unique skills needed (Huselid et al., 1997: 173). Moreover, staffing process seeks for employee potential for compatibility between employee and organization. Because incompatibility between individual and organization can impede on the achievement of necessary performance level (Harrell & Zaffre, 1999: 187). Employees cannot be retained in the organization unless their attitudes, values and behaviour fit with those of the organization (Ahmad, Schroder, 2003: 21). Therefore, identifying fit should be a part of the staffing process. Thus, firms carefully recruit and select employees for human capital characteristics (Hayton, 2003: 380). Furthermore, firms can improve quality of employees through training and development (Huselid et al., 1997: 173). Because training develops necessary technical skills required by the job (Ahmad, Schroder, 2003: 20). Therefore, training provides a firm of coping with market demands and changing customer needs by developing learning organization (Harrell, Tzafrir, 1999: 193).

Incentive compensation, employee empowerment and participation programs encourages employees to transfer of knowledge from their minds to the rest of the organization; therefore, promoting contributions of employees to business performance (Hayton, 2003: 380). Therefore, HRM should include compensation contingent on performance and employee empowerment to foster teamwork (Ahmad, Schroder, 2003: 20). Thus, a compensation system should be based on excellence results to increase employee performance (Harel, Tzafrir, 1999: 287). Because strengthening the ties between pay and employee performance provides of aligning employee efforts and organizational goals.

Therefore, HR practices such as staffing, selection, training, job design, participative management, performance evaluation, promotion and pay have an impact on organizational outcomes (Huselid, 1995: 640). The most important outcome is organizational performance (Delaney, Huselid, 1996). The other outcomes are financial performance (Huselid, 1995; Batt, 2002), organizational commitment, (Colvin et al., 2001; Batt, 2002), employee performance, organizational behaviour (Batt, 2002), efficiency (Becker, Gerhart, 1996), employee efforts, productivity, retention, capability, competitive advantage (Huselid, 1995), work effort (Arthur, 1994), motivation (Colvin et al., 2001), skill usage, job design and rewards (Batt, 2002: 587).

However, to obtain these outcomes and to increase firm performance via human resources depend on effectively implementing HRM practices in organizations. But literature studies show that firms confront a number of issues in implementation of HRM that might decrease the effectiveness of HRM.

2. HRM Issues in Implementation

HRM issues are related to staffing, training, performance evaluation and reward such as analyzing application forms, validity of selection tests, prejudice (Maurer, Fay, 1988) and injustice (Ledvinka, 1979) in interview process, transfer of training (Baldwin, Ford, 1988), dilemma of organizational justice, fair and employee dissatisfaction in performance evaluation and reward distribution (Findley et al., 2000; Keeping, Levy, 2000).

In their survey of 65 senior HR executives, measurement of HR effectiveness and impact was ranked as the number one topic that HR executives are most interested in exploring (Yeung, Berman, 1997: 321). For example, US companies invest $100 billion to training programs but only %10 of learnt knowledge and skills are transferred to workplace (Baldwin, Ford, 1988: 63). Moreover, firms may not analyze application forms in detail. Therefore, they do not possess demographic data about candidates in selection process. That may reduce the opportunity of an organization to employ best potential employees that their qualifications best fit to organizational requirements.

Research has shown that valid selection tests are very useful in employee selection (Harel, Tzafrir, 1999: 186). Validity of selection tests and prejudice in interview lead to ineffective recruitment in a way that new employees might not show expected performance at work. Further, a main purpose of training and development is to increase employee skills and knowledge and potential and change employee behaviour to improve quality of employees (Huselid et al., 1997: 173). Transfer of training problem hinders organizations to achieve these purposes in training and development. Because employees do not utilize skills and knowledge learned in training at work, and do not possess abilities and capabilities that customer and market require, and continue practicing prior work behaviours. Akbank, a Turkish private bank, adopted a number of techniques to solve transfer of training issues (Gozutok, 2006: 240): Firstly, they do test to check the targeted increase in knowledge and skills, and secondly, possessing managerial feedback about trainee, and finally, monitor changes in performance results before and after training. Further, employees can increase customer satisfaction through knowledge about customer, products, and organization that also depends on transfer of training to workplace.

On the other hand, unfair and injustice performance evaluation reduce employees' job motivation and satisfaction. They don't completely want to use their knowledge, skills, abilities, and competencies at work, and may not show high commitment to organizational goals. Because they think, they would not obtain organizational outcomes reciprocal to their contributions to organization and inputs that they bring to their jobs. That will decrease their trust about organization. Moreover, employees do not have organizational rewards if unfair and injustice performance evaluation exists. That also reduces employee concentration and motivation to show future job performance. In addition, employees cannot reach their career and individual objectives if they don't have good performance results and organizational rewards. Therefore, they don't feel perceived organizational support, and consider changing their firm. Organizational performance is lower when experienced and competent employees, who work for the company for a long time, leave the organization. Because they possess the most knowledge about customer and products, and firm itself.

Conclusion

Organizational outcomes reflect the mission of HRM. They show the need for implementing HRM practices. An organization demands from employees to show high performance, efforts, job satisfaction, motivation, productivity, efficiency and commitment. HR helps an employee to perform this expected behaviour at work. On the other hand, employees would like to obtain individual outcomes reciprocal to their contributions to organizational objectives. Therefore, HR's mediating role between employee and organization leads to positive relationship between two parts. Because both sides achieve their demands, needs, and goals from the exchange relationship. Thus, HR practices can be an infrastructure in developing organizational commitment.

Employees achieve career goals and make their career plan real via HR practices. HR finds out employee competencies and interest areas and specifies their career goals in accordance with their competencies and interests (Kocel, 2005): The practices also demonstrate employees what to do, how to do and where to develop individual performance to reach career goals. HR can successfully match individual goals with organizational objectives.

Employees feel organizational support when organization practices HR. Perceived organizational support increases their effort and performance at work. They stay and work for the organization for a long period. This time of duration in the organization helps employees to get to know the firm in details and to obtain needed experience that are required to effectively carry out job. Employees with high experience effectively match consumer needs and demands with firm's priorities and interest and this carries the company to market success.

HRM develops human capital in organizations. HRM hires best-potential employees at the start who have enough potential to contribute the organization. Because new employees possess required potential and ability to successfully implement organizational jobs. They also have capability to easily absorb the knowledge and skills in training after selection.

Abilities and potentials of employees can be developed via training programs, and employees are uploaded market-demanding knowledge and skills by training and development program. Work efforts and job success of employees can be assessed in performance evaluation. High performance results provide employees of achieving organizational rewards and subsequently their own individual objectives. These forms of HR practices play an important role in increasing organizational impacts of HR's on organizational outcomes such as organizational performance, commitment, motivation, satisfaction, and perceived organizational support.

However, to obtain these objectives, HRM must be effectively practiced in organizations. In practice, there are several issues that decrease effectiveness of HR in reaching organizational outcomes. Therefore, HRM in a firm should remove these obstacles to more effectively increase the effect of HRM on firm's performance.

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WTO Accession, Institutions and Russian Agriculture

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Abstract

This paper assesses the impact of WTO accession on institutional reform of Russian agriculture. Russian tariff protection in agriculture is already low, and therefore results of bindings will be limited. Moreover, subsidy ceilings exceed currently planned subsidy levels. Much of the literature says that that the real stimulus in accession of transition countries negotiations lies in liberalizing reform. Campos (2004) showed preparation for entry can trump domestic opposition to reform. At first glance, it may seem that such effects do not have direct economic importance. Indeed, Campos observes little evidence of sudden new trade openness, greater FDI or powerful growth. Such a conclusion would be incorrect. The strong role of EU accession agreements in stimulating reform across Central and Eastern Europe, an effect called the EU anchor, has no resonance in Russia. WTO effects on Russia, however, have already been felt, beginning in 2004, in a stepped up pace in reform affecting the agricultural sector.

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Introduction

This paper assesses the impact of WTO accession on institutional reform of Russian agriculture. Russian tariff protection in agriculture is already low, and therefore results of bindings will be limited. Moreover, subsidy ceilings are well above currently planned subsidy levels. Much of the literature says that that the real stimulus in accession negotiations lies in liberalizing reform. Campos (2004) showed that in Central and Eastern Europe, preparation for entry can effectively block domestic opposition to reforms. At first glance, it may seem that such effects are not directly economically significant. Campos observe little evidence of sudden new trade openness, greater FDI or powerful growth. Such a conclusion would be incorrect. The strong role of EU accession agreements in stimulating reform across Central and Eastern Europe, an effect called the EU anchor, has no resonance in Russia. WTO effects in Russia, however, can already be felt beginning in 2004, when the pace of reform in agriculture was stepped up. Part I of this paper reviews studies of the anticipated impact of accession to the WTO, with and without Doha Round assumptions. Part II suggests that this approach to the WTO impact is problematic. Part III discusses the acceleration in the momentum of reform due to WTO negotiations in 2003 and 2004; it is followed by a conclusion.

Estimates of the WTO Accession Impact

The main impact of a successful Doha Round agreement will lie in higher agricultural prices. The global grain trade will expand, even though livestock production will significantly rise in major grain producing countries (Argentina, the US and Australia). The main loser is the EU, which will import more grain and meat. The countries which will lose the most are in high income Asia and Europe (Beghin et al 2002, p 25; Fabiosa et al 2002, ppl. 329-330). Those to gain include Eastern Europe and Central Asia, where exports of agricultural good could rise by 45.2 per cent. Lowering export subsidies in the OECD countries will not necessarily help developing country agriculture

(Francois 2005, p 379; Beghin et al 2002; Fabiosa et al 2002).

For Russia, the potential impact has been assessed with Doha and non-Doha assumption. Both ways use CGE modeling using GTAP data (Rutherford, Tarr and Shepotylo, 2005, p. ii). Russia as a net food importer loses from the subsidy elimination in the EU, assuming the Doha agenda, and the gains to Russia from tariff cuts in other countries are too small to offset these losses. To be sure, the results of this study are dependent upon numerous assumptions, including uniformity of Russian consumption preferences. A second study, focusing on regional effects in Russia, also by Rutherford and Tarr (2006), shows that without Doha assumptions, over the medium run, households will assuredly gain. They estimate the potential gain for virtually all households of 7.8 per cent (or 4.3 per cent of consumption). It assumes a proportional reduction in all tariffs to one-half of their original level, improved market access and complete removal of barriers to FDI in services (p. 20). Three regions, they estimate, will gain considerably: the Northwest (11.2 per cent), St Petersburg (10.6 per cent) and the Far East (9.7 per cent). The reduction in barriers against foreign direct investment will only affect regions where foreign investment already is meaningful. The sectors that will lose are those that are most protected prior to tariff reduction and which have a much smaller share of exports, including food, machinery and equipment and construction materials. In other words, in Russia, despite overall welfare benefits, agriculture will suffer in a loss of jobs in food processing due to cheaper food imports; in domestic manufacturing of agricultural machinery, an important industry; and regionally, in the Center and South, from out-migration. Rutherford and Tarr's regional study points out, taking into account all linkages (including labor migration, machinery, food, and levels of FDI by region) and both agriculture and forestry, that the overall output decline for the sector ranges by economic region from -1.8 in the Urals to -11.4 in the Northwest (p. 47, Table 15).

A More Optimistic Assessment

The focus on border measures above is problematic for Russia. Russia is already an open economy in regard to agriculture. Most of Russia's agricultural tariffs are already low, especially for corn (grain) (0), 5 per cent for durum and other wheat, 5 per cent on nuts, and roughly 5 per cent on most fruit. With the EU, Russia agreed in May 2004 to a bound average tariff level of 13% for agricultural goods, in addition to tariff rate quotas for fresh and frozen meat and poultry representing around 600 million euro per year (15% of total EU agricultural exports to Russia). The agreement with the US in November 2006 similarly does not commit Russia to significant changes in tariffs for agriculture. Russia's tariff bindings with the US on cheese and other dairy are 15 per cent, to be achieved over 3-4 years, and for soybeans (0) within two years[1]. Trade in poultry, pork and beef, until 2009, will continue to be governed by an agreement reached in 2005 on Meat establishing tariff rate quotas (TRQs) and a 15% tariff for high quality US beef, now bound. The chief advantage of entry, therefore, will be greater predictability of these terms.

In regard to subsidy reduction, Russia has negotiated at $16 billion ceiling, which far exceeds current planned levels of spending. After initial reductions of subsidies in 1993, the Russian government did not restore high subsidies. Some farm support was provided primarily through the livestock sector at the regional level, but the OECD reports total support, TSE (Total Support Estimate, including transfers from consumers, taxpayers and budget revenues as a percentage of GDP) rising to a peak before devaluation and after declining, steadily low. There are numerous other reasons, apart from the relative insignificance of border measures and subsidy reductions, that a more optimistic scenario can be sketched for the agricultural sector. One reason is that foreign investment will be stimulated in the food sector. Another is that advancement in business services, which will clearly and quantitatively affect every sector, will reach businesses in agriculture too.

Productivity will be affected. Even without the reduction of highly distorting subsidies in developed countries, that is, no progress on Doha Round, predictions for transition countries show productivity will increase in the long run as market institutions strengthen, a generalization that applies to Russia, given food imports may rise in the short run. Current estimates of the rate of productivity improvement are constantly being updated. A new survey reported by Liefert, Gardner and Serova (2003) show that agriculture labor is being used far more efficiently than before. There is currently little surplus labor in the agricultural sector after more than a decade of reform progress in restructuring. Labor reallocation has occurred on a large scale. As capital investment increases, the critically important biotechnological advancement will occur, as WTO has its impact. This is the key area where Russian agriculture has lagged most significantly behind that of other advanced economies. Biotechnological improvement of agriculture was forgotten even in transition, after having been weakly developed in the Soviet era[2]. Russia missed the western revolution in yields. WTO entry may break this bottleneck in a critical area of rural development.

Finally, a critical reason that the WTO accession agreement produces an impact is the reform momentum itself, as in Drabek and Bacchetta (2004). WTO accession helps the credibility of government policy vis-à-vis foreign and domestic investors and the business community in general. The accession negotiations,

[1] "Results of Bilateral Negotiations on Russia's Accession to the World Trade Organization (WTO), Agricultural Goods Market Access, 19 November 2006", www.ustr.gov.

[2] See Leonard (forthcoming 2007).

began with the GATT in 1993, have been slow, but they picked up for the WTO after 2000. By that time, the internal dynamics had already given shape to agrarian reform, with the result of strong opposition blocks in critical areas.

Structural transformation in agriculture started almost simultaneously with price and trade liberalization in 1992. The reform was held back, however, as witnessed by farm bankruptcy and continued debt write-off. In other spheres of the economy, progress was far more rapid. National data show the economy to be rapidly improving; foreign investment has doubled each of the past two years. By 2006, in Russia, the market economy is well established, and the standard of living substantially higher than after the financial collapse of August 1998. Real GDP growth between 1999 and 2004 was on average roughly 6.6 per cent (OECD 2005). All three rating agencies have now raised Russia's sovereign rating to investment. The agricultural sector still lags well behind that of developed countries. The key concerns now for the Russian government can easily be seen in the following table showing the productivity of the critical dairy sector:

Much of the lag is due to stagnation of biotechnological improvements. Russia's policy focus has not been on technology and productivity improvement. The weak performance of the dairy sector can be generalized across sectors, although grain yields are improving (Trueblood and Arnade 2001).

The New Momentum in Reform

After 1994, up to 2000, the enormous discretionary authority given to regions and republics included the essentials of farm reform, restructuring, finance and property rights. Low output and indebtedness, prolonged by Soviet style dependence on government through regionally supplied commodity credit and the spread of barter, led to a stagnating process. After 2000, re-centralization of state authority under President Putin reinvigorated the reform process, affecting all sectors by harmonizing laws across regions. Both recentralization and harmonization were essential for agrarian reform.

In regard to agriculture, reform broke new ground in 2004. The Russian Federation began to amend technical regulations bringing laws into compliance with WTO norms—to promote Russia's entry—in vital areas of food safety, biotechnology and veterinary and phytosanitary requirements, and requirements for the safety of products and storage[3]. The wave of reform is also reflected in the Federal Law "On the Development of Agriculture", which came into force 11 January 2007. Criticized for not going far enough, this law nevertheless is fundamental. All previous categories of agricultural producers were eliminated, leaving a single category, "agricultural commodity producers," anyone engaged in commercial production with at least 70 per cent of profits from agriculture.

It is further reflected in Russia's National Project in Agriculture, representing strong support for small scale farming, both by the household sector and the independent farming sector. Small producers will be given interest free credit (co funded by federal and regional authorities), especially for livestock production, showing recognition by the government of an important locus of production.

Conclusion

The general assumption about WTO entry is that is effects will be negative for Russian agriculture. Positive trends now underway, especially in the completion of the reform process, say something different. Low current tariffs, especially in cereals, have already promoted substantial growth of competitiveness and reallocation of labour. Equally important, WTO accession will improve the rural investment environment by greater predictability; Putin's efforts at recentralization of authority and harmonization of Russia's laws will also help. Rural dwellers will be positively affected as consumers. In the longer run, general economic advancement will help diversify rural labour. There may be strong regional effects from the WTO. However, agricultural regions may be among the beneficiaries, not failures. Improved physical and institutional infrastructure, including market information, networks of banks, cooperatives and services, and private seed, will help agricultural regions, such as Krasnodar, remain among the regions in Russia that have the highest investment potential, sustained over many years in transition (Expert RA)[4].

In the long term the WTO accession process leads clearly to overall improvement in food production in Russia. With or without a successful completion of Doha round negotiations, the high demand for imported food products by Russia's middle class will not put a strain on current accounts, which are in surplus. The threat comes if energy prices should begin to fall. As the Russian Minister of Agriculture, Alexey Gordeev has observed, the growth rate of imports [of food] is four to five times higher than that of domestic production[5]. Imports must be paid for by hard currency. By making Russian products more attractive in the long run, WTO entry should solve this problem, helping to prevent deficits if energy prices fall[6].

3 Mark Petry, "Russisan Federation Trade Policy monitoring: Russia to Start WTO Inspired Legislative Revamp 2004," GAIN Report, USDA, RS4062.

4 Granville and Leonard (2007)

5 Gordeev (22 February 2006), cited by People's Daily Online (23 February 2006), http://english.people.com.cn/200602/23/eng20060223_245176.html.

6 GAIN RS 4062 (11/17/2004): "On November 16, the Russian Federation published a list of 74 laws and regulations that will be amended within the next two years according to the Law on Technical Regulation. This effort is designed to bring Russian legislation into

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compliance with WTO norms and to promote Russia's entry into that organization. Among this first group of laws to be reformed are many important ones relating to agriculture, including food safety, biotechnology, and agricultural production.”

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