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WTO Governance - lost in the Doha Round?

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Introduction

The World Trade Organization is a crucial case for analysis by scholars in international politics. Indeed, it can be argued that the WTO is the only effective case of an international organization at the global level which is “supranational” in certain respects. It is, therefore, a natural laboratory for advancing understanding in several important respects: 1) why international organizations and their underlying principles endure; 2) how they develop increasingly precise rules and procedures; 3) how they acquire deeper levels of control and authority in implementing and interpreting rules, including dispute settlement; 4) how they evolve in terms of accountability to member states; 5) how they gradually expand their membership base; 6) how they come to negotiate and govern a broader scope of issue areas; and 7) how they are affected by pressure from domestic politics in key member states, international NGOs and transnational issue networks. While global in scope, the WTO laboratory is also quite useful in revealing insights applicable to international institutions at the regional level.

This paper proceeds from the basic assumption that much can be learned from the evolution of the GATT-WTO, particularly with respect to enhancing international coordination and collaboration. Specifically, it argues that the WTO is perhaps most importantly a leading laboratory for assessing how international organizations make decisions, set priorities, and allocate their resources. Although most analyses tend to group the WTO with the World Bank and IMF, our approach is to emphasize a fundamental difference---the WTO’s traditionally “consensus” based decision making process which has been driven by officials from the US, EU, and their “club” or inner group of approximately fifteen to thirty key trading states. We argue that the tradition and reality of WTO decision making is not only informal but also gradually changing over time in response to the most involved members. Our aim, therefore, is to explain: 1) First, exactly how the IO club process has operated within the GATT-WTO; 2) Second, how and why it has changed, beginning especially with the Ministerial meeting of 1999 in Seattle and continuing through the most recent Ministerial in Cancun of September 2003; and 3) How, precisely, is it likely to evolve in the next few years? In conclusion, we offer our evaluation of whether the WTO club process is likely to survive its current challenge of completing a “development” Round. Equally important, we map the broader implications for states’ willingness to rely substantially on authoritative international organizations.

Club Governance in the GATT-WTO

The WTO is a leading example of fundamental asymmetries in influence over the decision-making of international organizations. Despite the long enduring principles of the trade regime, the GATT-WTO is clearly “weak” as evaluated in conventional terms. At times, for example the recent struggles over appointing the Director General, it has suffered from a lack of a formal leadership structure.¹ All members enjoy formally equal rights: the large and small trading states, the free traders and protec-

¹ The best account is Miles *Kahler*, *Leadership Selection in the Major Multilaterals*, IIE, Washington D. C. 2001

tionists, the market oriented democracies and the dictatorial systems. Even failed states as members engage in negotiations and display full statehood and diplomatic prestige. This perfect veil of one state one vote and non-discrimination within a “Group of 148” states necessarily produces informal decision making and power structures inside the regime.

From its origins, the GATT-based trade regime was dominated by the large traders. The post war trade regime was launched in a period of unchallenged U.S. economic hegemony. U.S. hegemonic leadership provided the value system and substantially shaped the rules and procedures. Still, the GATT was not an internationalized U.S. executive order. Even the unchallenged U.S. economic hegemony of the 1940s and 1950s could not dictate orders to the members. Both the GATT and the Havana Charter were negotiated intensively at both the international and domestic levels. The GATT in particular was a pragmatic mix of internationalist free trade rules and national protectionist exceptions, along the lines of “embedded liberalism” adaptable to all sorts of future compromises.²

Thus, GATT decision making among “equal” contracting parties operated with a hidden power structure from its outset. Early rounds of negotiations could be launched and completed mainly on the basis of U.S. officials providing the initiatives and honest broker role, as well as assuming the short term domestic political costs of leadership. With the relative U.S. economic decline and the increasing influence of key European traders by the late 1960s, European states working together acquired the ability to block American initiatives. Gradually, during the 1970s in particular, GATT decision making required not only US leadership but also active EC member state support to build the required “consensus” among an asymmetrical “hegemonic group” or club.

This new governance structure was less efficient in delivering hegemonic stability for in the trade regime. Results in trade rounds with dozens of important participating states required ever greater and more complex coalition building capabilities. Since even U.S. and European officials in concert lacked commanding power, softer economic levers were required. Soft power, or “the ability to obtain the outcomes one wants,”³ in the field of trade is distributed in a multipolar manner. However, the cooperative trade regime developed a core group of actors able to combine their soft power to achieve results. The leading large traders, the US and the EU, were the prerequisite core participants of any winning coalition. They represented the leading world trade shares and the most committed to the trade regime, and thus could not be neglected in any deal. Their combined influence, in the form of an At-

² The term *embedded liberalism* was coined by John Ruggie, International Regimes, Transactions and Chance. Embedded Liberalism in the Post-War Economic Order, in: *International Organization* 36, 2, 1982, pp. 379-416; an actualisation *ibid.*, Embedded Liberalism and Progress in International Economic Relations, in: Emanuel Adler/Beverly Crawford, (Hg.), Progress in Postwar International Relations, New York 1991, pp. 201-234; Ruggies concept makes more sense than the concept of “transnational mercantilism” by Jean-Christoph Graz, Aux Sources de l’OMC La Charte de la Havane, Geneva 1999; Lloyd Gruber, Ruling the World. Power Politics and the Rise of Supranational Institutions, Princeton, NJ, 2000, p. 75

³ Joseph Nye, U.S. Power and Strategy After Iraq, in: *Foreign Affairs* 82, 2003, 4, p. 65

lantic “bickering bigemony” or G-2,⁴ built the essential consensus among club members, which then gradually convinced the membership to deliver results in the Tokyo and Uruguay Rounds.

This process worked from the mid-1970s through the mid-1990s, but could not be sustained as the new WTO attempted to launch its first new round. The traditional “green room” process to build a consensus, first among the club of most willing and able players, and then among the membership at large, broke down before and during the Seattle meeting. In the aftermath of the failure at Seattle in late 1999, the traditional G-2 and club governance structure was under attack from several directions. EU negotiator Pascal Lamy found the regime’s governance structure to be “medieval”⁵ and in need of replacement with a more formalized leadership process similar to those of the World Bank and IMF. Analysts such as Richard Blackhurst and Jeffrey Schott promoted specific, more formalized decision making structures and procedures.⁶ Keohane and Nye have emphasized the need for enhanced political accountability in its various forms.⁷ Other analysts argue for “democratizing” the WTO process.⁸ Finally, anti-globalization activists, such as Lori Wallach or Ralph Nader, seek to eliminate or drastically reform the WTO.⁹

WTO Decision Making in the Twenty First Century

We agree that the club, or inner-group of most involved states, probably needs enlargement into a new G-plus, and that the informal decision making procedures need revision. Still, diagnosing the WTO governance “disease” is much easier than curing

⁴ Jacques *Pelkmans*, *The Bickering Bigemony; GATT as an Instrument of Atlantic Trade Policy*, in: Loukas *Tsoulakos* (Ed.), *Europe, America and the World Economy*, Oxford 1986, pp. 83-106

⁵ “Despite the commitment of many able people, the WTO remains a medieval organisation. I said this in Seattle, got a lot of flak and I have to repeat it here. The procedures and rules of this organisation have not supported the weight of the task. There is no way to structure and steer discussions amongst 146 members in a manner conducive to consensus. The decision-making needs to be revamped.” European Commission, DG Trade, Speeches and articles by Pascal Lamy, Press Conference closing the WTO 5th Ministerial Conference, Cancun 14.9.2003

⁶ Jeffrey *Schott*/Jayashree *Watal*, *Decision Making in the WTO*, in: Jeffrey Schott (Ed.), *The WTO after Seattle*, Washington D. C. 2000, p. 283 u. 285; Richard Blackhurst, “The Capacity of the WTO to Fulfill its Mandate,” in Krueger, *The WTO as an International Organization*, 31-58

⁷ Robert O. *Keohane* and Joseph S. *Nye*, “The Club Model of Multilateral Cooperation and the World Trade Organization: Problems of Democratic Legitimacy,” Revised Version of paper prepared for “Efficiency, Equity and Legitimacy: The Multilateral Trading System at the Millennium,” Kennedy School of Government, Harvard University, June 1-2, 2000

⁸ Bruce Stokes and Pat Choate, *Democratizing U.S. Trade Policy*. New York, N.Y.: Council on Foreign Relations, 2001

⁹ Lori *Wallach* and Michelle *Sforza*, *The WTO*. New York: Seven Stories Press, 1999. See also Kevin *Danaher* and Roger *Burbach*, *Globalize This!* Monroe, Maine: Common Courage Press, 2000; James H. *Mittelman*, *The Globalization Syndrome*. Princeton, N.J.: Princeton University Press, 2000; and David *Held* and Anthony *McGrew*, *Globalization and Anti-Globalization*. Cambridge, England: Polity Press, 2002

it. Certainly it is important not to over state or exaggerate the depth of the failure at Seattle. In fact, the key question may well be why the meeting almost reached an agreement, given the many reasons for it to fail. Furthermore, it is essential not to hastily abandon the member-driven nature of the GATT-WTO, which is likely responsible in part for its unprecedented authority. Indeed, it is possible that the “weakness” of the WTO as a formal organization is precisely the reason for its ever increasing influence and authority. Finally, either “democratizing” the WTO decision making process or creating a formal executive committee could end up making the organization either ineffective or less accountable and credible. The outcomes of Cancun, as well as the Seattle and Doha meetings, may indicate a need for revisions and reforms rather than radical overhaul and re-structuring.

The more official of the informal core groups in the WTO is the Quadrilaterals or “Quad,” including the EU, the US, Japan and Canada. This is most often cited as a core decision making group of large traders. “Some of the most difficult negotiations have needed an initial breakthrough in talks among the four largest members.”¹⁰ The Quad, however, never played a consistent and stable leadership role. It was an ad hoc and very informal core group assembled by GATT Director General Dunkel for some of the most difficult decisions during the Uruguay Round. Quad behaviour most often has been dominated by Japanese reluctance, Canada’s relatively minor relevance, and US-EU bilateralism.

The rising stars in the WTO system have been the heterogeneous “developing countries” (DCs) and, more recently, the least developing countries (LDCs). The most involved DCs during the 1970s were Argentina, Brazil, Egypt, and India. By the 1980s they were joined by Mexico, Singapore, South Korea, Hong Kong, and South Africa. These DCs are the real winners of the consensus based system, which currently includes 148 “equal” states. In fact, the DCs consistently have lined up to oppose efforts to exclude them from the group of “least developed countries” entitled to the most favourable “special and differential treatment.” This, in turn, makes it much more difficult to provide meaningful concessions to the weakest, or LDC, members. The enshrined “equality” of all members has hampered the formation of more functional groups, such as newly industrializing countries and LDCs. The WTO lists as formal groups only the agricultural traders of the Cairns Group and regional groups, such as ASEAN, MERCOSUR, NAFTA, the African Group and the Latin American Economic System.

Each of these groups lacks a common trade approach or a consensus building mechanism which could enable them to unify around a common agenda or a set of positions in the WTO. In this diffuse arena of heterogeneous actors, diverse interests, and complex issues such as intellectual property rights, the WTO secretariat and secretary general necessarily suffer from an overload of demands and functions. The result is inadequate monitoring and brokering capabilities. Indeed, the decision-making process in the WTO could become paralyzed by a combination of various overlapping developments. Particularly relevant are the expanding WTO membership, complex issues, organizational overstretch, decline in liberal values in response to anti-globalization protest and the new protectionism of some NGOs.

WTO negotiations, therefore, may have reached a level of complexity which is no longer manageable with the existing structure. Additionally, the increased politi-

¹⁰ http://www.wto.org/english/thewto_e/whatis_e/tif_e/org3_e.htm 28.12.2003

cization of trade beginning in the late 1990s may have caused a shift in emphasis away from the commercial benefits of trade liberalization. Instead, states may be increasingly inclined to use trade as a means to display influence, power and prestige. In fact, trade and its distributional effects on wealth within and among countries never were confined to the “low politics” of small expert circles. Still, trade rarely commanded the attention of “high politics” in terms of public and media attention. The fluctuations of the political cycles in club member states nevertheless provided space for consensus building, without overly politicizing the painful and time consuming process. GATT trade rounds always missed deadlines and experienced major failed meetings, but in the end they delivered liberalizing agreements of at least modest scope.

Of course, the very nature of the WTO as an organization has changed the institutional context of bargaining and negotiations, as compared to the GATT. Instead of trade rounds of contracting parties in the traditional sense, the new framework is negotiations within the WTO system of rules. This new context explicitly involves the G-148 in an organization of partnership among all members. Even the less interested, or even unaffected, states have a voice in the game. In this context, what happens with respect to small traders in issue areas of minor interest to them? Can they opt to remain out of the game and allow the more and most interested parties proceed with their business? It is increasingly very difficult to do so. As a result, more often all states will engage and exert influence. By bartering their consent in package deals, they can produce overload, or even block a broad-based consensus with a veto coalition.

An important question, therefore, is the ranking of key goals sought by DCs and LDCs in the WTO, and specifically the balance among negotiating trade deals, exerting power, and gaining prestige or more symbolic influence. Each of the three is necessarily involved in trade negotiations, but to the extent that trade policy falls clearly behind the other two, the WTO negotiations are likely to be deadlocked.

The WTO’s decision-making structure may create an incentive for small traders to change their hierarchy of goals from trade to power and prestige. In this case, a new balance of politics in the WTO negotiation process will favor the non-trade goals at cost of trade goals. Small trading states gain more options and bargaining chips at the disadvantage of large trading states. When small traders use their leverage to obtain better trade deals within their limited scope of interest, this behavior remains effective in the WTO system. On the other hand, when their drive to display prestige and power to offset the feeling of being marginalized and neglected is predominant, the small trader community sends the WTO in disarray and gridlock. In this situation the WTO is simply ineffective as a negotiating forum. Was this, in fact, what happened during the Cancun Ministerial in late 2003?

Cancun: Too many Gs and not enough responsibility for trade as global good?

The five ministerial meetings of the WTO from 1996 through 2003 have failed to fulfil expectations for strengthening the new trade regime. The first, Singapore, meeting in 1996 aimed to achieve relatively modest objectives. Its main task was

overseeing the implementation of the Uruguay Round Agreements.¹¹ The players celebrated the founding of the WTO and its accomplishments as an international organization. They envisioned a promising future for the new and substantially more authoritative international trade regime.

At the same time, it raised the controversial package of four “Singapore issues,” the relatively new areas of competition, investment, transparency in government procurement and trade facilitation. Despite the global campaign by EC trade negotiator Leon Brittan to legitimize these issues, and the first two in particular, they became a major issue of North-South conflict for the forthcoming ministerial meetings. The second, or Geneva, ministerial of 1998 celebrated the 50th anniversary of the GATT, but also generated a major anti-globalization protest by approximately 10,000 people. There was little focus on the preparations for attempting to launch a new round of negotiations at the next, Seattle ministerial, in 1999. In fact, behind the scenes a deeply divisive fight was taking place in 1998 and 1999 among coalitions of members over who should serve as the next WTO Director General.

The “tear gas” ministerial in Seattle was the first where NGOs and anti-globalization campaigners dominated media attention. The real causes for the Seattle disaster, however, were U.S. and EU leadership failings, a complete lack of transatlantic consensus, and poor US preparations.¹² Also important were U.S. domestic political constraints, insufficient preparatory time for the new WTO Director General, Michael Moore, and the overloaded negotiating agenda with unresolved demands by scores of developing and least developed states. The media, analysts, and commentators fundamentally misinterpreted and exaggerated the NGO impact. At the same time, leading spokespeople for certain NGOs made highly relevant and accurate accusations about failures of the WTO negotiating process. In the end, Seattle served as a fundamental wake up call which sharply elevated the priority of the agenda for the next ministerial conference in Doha of November 2001.

In terms of WTO decision making process and procedures, Seattle also marks a fundamental transition. Leading trade diplomats recognized fairly quickly that much more had to be done to integrate the DCs and LDCs more regularly and substantively into the process. Particularly in conceptualizing and then shaping the precise negotiating agenda, the most active and experienced negotiators would have to be drawn into the “Club.” More important, their trade ministers would have to be drawn out of capital cities and integrated into the preparatory process in order to strategically position them both at home and in the WTO. For certain African and other LDC trade ministers, the humiliation of exclusion from a “green room” negotiation at Seattle was only exceeded by the embarrassment of not being able to provide timely briefs for their prime minister or deputy prime minister at home.

The series of mini-ministerials in preparation for the next, Doha, ministerial meeting aimed to correct these defects. Coordinated by U.S., EU, and WTO officials, these sessions aimed to create a broader network to include LDC trade ministers who would personally engage the issues related to the negotiating agenda. The network included the same ministers included in “green room” sessions in Seattle, plus addi-

¹¹ http://www.wto.org/english/thewto_e/minist_e/min96_e/min96_e.htm

¹² Reinhard Rode, *Optimism for the WTO Doha Round: The Bickering Atlantic Bigemony and New Pro Free Trade Coalitions*, Hallenser IB-Papier 3/2003, p. 8, in: www.politik.uni-halle.de/rode

tional LDC ministers, particularly from African states such as Kenya, Nigeria, and Botswana, as well as South Africa. Alec Urwin from South Africa was an old hand, but the other ministers were newer additions. In effect, they became members of a larger “club” or consensus group which was being formed such that different ministers could focus on issues of most importance to them, and also represent regions in a way that would allow effective negotiations. One to two day meetings were held with 20 to 25 ministers each participating in Australia during late August and in Singapore in October. They expressed their views on the main issue areas and possible agenda, and were made to feel part of the decision making process. In the end, they may have valued their presence and new-found role even more than their actual weight in setting the exact agenda.

By the time of the 2001 ministerial in the Arab desert state of Qatar, even deeper international political changes had emerged. The terrorist attacks of September 11, 2001 triggered an immediate re-framing of U.S. foreign policy which was considerably more cooperative toward the main states of Europe and elsewhere, even though President Bush framed the alternatives as only “for or against us.” Many leaders worldwide from Russia to Indonesia made empathetic and cooperative gestures toward the U.S. In this and the greatly heightened security environment, NGO activism and critical media took a clear back seat to report functional trade business in Doha. In this context, U.S.-EU cooperation and leadership, supported by strong performances by the host state minister and WTO Director General, finally drove the ministerial process to agreement on a new, “development” round of WTO negotiations.

The explicit label of a “development” agenda from Doha, however, may have burdened the Doha Round with overly ambitious expectations among DCs and LDCs especially. To help the poor countries was a major and useful goal, not just grand rhetoric. Their interest demands a major reduction in farm tariffs and agricultural export subsidies. The industrial countries, on the other hand, were deeply interested in freer trade in services. This set of diverging interests offered ample room for dealing and compromising. Developing countries are the main losers if the talks are unsuccessful since most of them have no attractive regional trade alternative in comparison to the large traders and their regional blocs. Why then did the North-South confrontation happen in Cancun in a way that the talks collapsed and compromise was impossible to achieve?

Rational actors would have pursued a set of compromises leading to a broad package of agreements. Most prominently, U.S. and EU “losses” in agriculture would have been traded off against gains in liberalizing service sector trade. This did not happen for a couple of reasons. Early compromising between the two rounds stagnated for 22 months. The self-imposed deadlines of the WTO were all missed and most tough decisions were put off or postponed to the Cancun meeting, thus placing heavy pressure on making too many compromises during the meeting itself. At the ministerial too many participants continued posturing and grandstanding too far into the process, instead of laboring for consensus. After a long period of trans-Atlantic bickering, the US and the EU finally produced a common but not very far reaching framework for freeing agricultural trade in August 2003.¹³ This Atlantic stance could have served as a leadership and commitment signal; however, it pro-

¹³ http://www.ictsd.org/issarea/ag/resources/docs/EC-US_joint_text_13_Aug_2003.pdf ; *The Economist* 16.8.2003, p. 57

voked stiff resistance among DCs who felt manipulated. Many analysts and commentators missed the fact that the U.S. delegation spent considerable time and energy simply explaining that its August draft with the EU represented only an attempt at consensus, and that its actual negotiating position could be more ambitious in agriculture. Angered by the Atlantic bigemonic effort, a new group of developing countries emerged just before the Cancun meeting, the G-21.¹⁴

Led by Brazil, China and India, this new group represented half the world's population and two-thirds of its farmers. Despite its very diverse interests, the G-21 became a powerful and symbolic voice in Cancun. Its behavior was well coordinated and organized, and caught the old bigemony and the EU in particular by surprise.¹⁵ The G-21 negotiating approach, however, seemed to reflect more power and prestige orientation than concrete trade related goals. They seemed more focused on blaming rich countries for their high level of agricultural subsidies than on reaching an agreement. The message was correct, particularly with respect to the LDCs of Africa, but the new group had no bottom line of its own demands. It never produced a negotiable group offer. Their common agricultural agenda put forward on September 4 (G-20) and 14 (G-21)¹⁶ was essentially a lowest common denominator of demands. The assertive new coalition was incapable of offering a package with important gains in exchange for some concessions on the Singapore issues because of its focus on demonstrating its power and its diverse, even conflicting substantive interests. India and Brazil, for example, represent almost opposite polar opposites on the crucial issue of agricultural liberalization.

The outcome of such a non-negotiating strategy, coupled with the EU's strategy of eleventh hour compromises on the Singapore issues, inevitably led into a stalemate. "...[O]ne cannot get much for nothing in commercial diplomacy."¹⁷ The bottom line of their demands was deep cuts in EU and US agricultural protectionism without even addressing their own, often high levels, of protectionism. In sum, this new coalition of DCs and LDCs, composed one half of Latin American states, appeared rather diffuse, unstable and symbolic in its strategy and leadership.¹⁸ In Cancun Brazil appeared to dominate the coalition dynamics, with foreign minister Celso Amorim as lead spokesperson.

Right after the ministerial, India seemed eager to play the leading role in consolidating the new group. The Indian minister of trade, Aarun Jaitley, was especially active in promoting the group as a new idea and entity. Behind the scenes India competed with China for the leadership role of an Asian branch of the group's network.¹⁹ Parts of the group made public arguments in favor of individual bilateral free trade

¹⁴ Argentina, Bolivia, Brazil, Chile, China, Columbia, Costa Rica, Cuba, Ecuador, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Peru, Philippines, South Africa, Thailand, Venezuela.

¹⁵ Pascal Lamy, Letter from Cancun, EU Trade News, e-mail service of the European Commission Directorate General Trade, Brussels 13.9.2003

¹⁶ <http://www.ictsd.org/issarea/ag/resources/docs/G-20%20official%20text.pdf>; http://www.ictsd.org/ministerial/cancun/docs/G21_ag_text.pdf

¹⁷ Gerard Curzon/Victoria Curzon, GATT: Traders Club, in: Robert W. Cox/Harold K. Jacobson, *The Anatomy of Influence*, New Haven, Conn. 1973, p. 309

¹⁸ Still, the group was able to capture the moral high ground at Cancun in part by supporting the African cotton initiative, which received short shrift from the US negotiators.

¹⁹ *Frankfurter Allgemeine Zeitung* 23.9.2003, p. 16 and 2.1.2004, p. 10

agreements (FTA) with rich countries. The Philippine Trade Secretary Manuel *Roxas* expressed its group perspective very bluntly in instrumental terms. "There is no country that will uphold the primacy of G-22 interests over their own national interests. So G-22 is a tool, we ally with them, we look forward as best as we can, but we are not (unrealistic). We are hard-nosed practitioners of negotiation and the international statecraft that says each country will pursue their own national interests the best way they can."²⁰

An important challenge for research is explaining how the G-20 formed and evolved. It is likely that it lacked the longer term preparation which would have allowed formulation of a common agenda and reactions to anticipated offers by the US, the EU, and other smaller groups. In fact, the final coalition building for the group seemed to be completed only after the EU/US framework of August 13. The main purpose, based on a limited consensus, was only to reject the Atlantic framework as insufficient and refuse negotiation on the Singapore issues. Based on direct observations at Cancun, it is clear that the group had to devote much of its efforts to simply holding the coalition together. U.S. negotiators in particular were working aggressively to split off at least smaller states, for example those with which they were negotiating the Central American Free Trade Agreement or CAFTA. Finally, the group also dedicated substantial portions of each press briefing and public appearance to persuading the media and other states of their "professionalism," by which they meant their seriousness and substantive focus.

This rather spontaneous demonstration of power by a blocking group put the EU trade negotiating machinery under heavy pressure. The cumbersome multilevel EU decision-making apparatus does not provide Pascal Lamy with much room for spontaneous manoeuvring in negotiations. In a paper from the Department of Trade and Industry (DTI) from October 2003, British officials revealed that their government was kept in the dark by the commission and the EU negotiator was judged having made a "tactical misjudgement" by offering concessions in Cancun too late.²¹ Lamy had given up two of the four Singapore issues not earlier than on Cancun's final morning and it was rumoured that the Europeans could even jettison three of the issues if only negotiations on trade facilitation remained on the table.

In strictly rational terms in that negotiating context, no least developed country should have objected to that. Complex, inefficient and corrupt customs procedures constitute a large share of transportation costs of African exports to foreign markets. According to World Bank estimates, the transportation costs average five times higher than the tariffs paid on those exports. Rent-seeking state classes dominating these governments necessarily dislike this topic. It forces their corrupt governance practices, such as widely practiced and accepted forms of bribery, into the public eye and onto the negotiation table.

By this very late stage of the negotiations, however, trade policy and interests were trumped by anger, frustration, and muscle flexing. The group of four cotton producing African states was embittered by the vague, even demeaning responses to their demand to end cotton subsidies in rich countries. By Saturday morning they refused to even negotiate on any of the four Singapore issues. In stark opposition, South Korea asserted the position that it could accept only negotiations on all four is-

²⁰ <http://jangan.com.pk/thenews/sep2003-daily/27-09-2003/business/b14.htm>

²¹ DTI leak blames Lamy for Cancun failure, *The Guardian* 22.10.2003

sues.²² Luis Ernesto *Derbez*, Mexico's foreign minister and chairman of the Cancun gathering, stated he saw no basis for compromise and declared the meeting over.²³

The blame game in the aftermath revealed a wide range of likely reasons for failure. The conflicting parties followed the normal trend of immediately making public accusations. Europeans blamed chairman *Derbez* for cutting off too hastily. Had he wanted the meeting to fail, in line with G-21 strategy and goals? Conspiracy theorists even claimed that Mexico acted in response to US pressure to let the process fail. DCs, LDCs, and NGOs blamed the rich countries. In response, Western negotiators blamed the poor countries, claiming they were misled by their NGO friends. They also accosted them for their public posturing and political rhetoric, as well as their failure to dedicate any serious effort toward reaching agreement. Each of these arguments has an element of truth, but offers little in terms of deeper explanation.

Some third world delegates, along with certain NGOs, celebrated the collapse as a major victory. The Philippine trade minister was "elated" and Tanzania's delegate "very happy" that poor countries had stood up to rich-country "manipulation". But other DC voices were upset and disappointed that poor countries acted in such a self-damaging manner.²⁴ Anti-liberal NGOs were particularly satisfied with their success in convincing LDCs and DCs to block a bad deal and in undermining WTO legitimacy.²⁵ In the real world of trade politics, LDCs and DCs missed an opportunity. They could have locked in US and EU reforms before the US moved into the usual year of pre-election protectionism²⁶ and the EU became consumed with the first wave of eastward enlargement in 2004.

Future scholarly analysis will likely focus on the lack of consensus among the many diverging groups, a lack of leadership, and an ill-defined WTO decision-making process. No predominant state or coalition fought for further liberalization as a common global good in Cancun. The many Gs seem to use the trade regime as a platform for the display of power instead of an arena for serious negotiations. This reflects a wide spread lack of trust in the good services of the WTO and its "embedded liberalism. Too many member states seem to have lost credibility in the regime as a trade-negotiating body. The former Atlantic bigemony lost its grip, a larger Western hegemonic group with sufficient leadership impact along the lines of a G-8 or OECD structure did not emerge, and an enlarged leadership structure including key DCs seems out of reach. As a result, the membership as a whole may enter a period of drift, raising concerns whether the WTO will be marginalized. In this context, there is a real risk of "UNCTADIZATION," or the evolution of the WTO into a platform for Southern posturing and Northern neglect.

²² http://www.ictsd.org/issarea/ag/resources/docs/Bulgaria_et_al-Joint_text.pdf South Korea participated in the core group of agricultural protectionists with Switzerland, Bulgaria and others.

²³ *The Economist* 20.9.2003, p. 30

²⁴ *Ibid.*, p. 29

²⁵ Actionaid, news releases in Cancun 12. and 14.9.2003

²⁶ *The Economist* 8.11.2003, p. 76 f.

WTO Governance lost? Three Scenarios, one modest best and two worst cases

The history of GATT trade negotiation rounds abounds with failed meetings and temporary deadlock. Thus, it is premature to predict either the death or the irrelevance of the WTO. Trade rounds consistently miss deadlines. Indeed, it often seems that sustained periods of frustration and gridlock are essential to progress. It would not be entirely surprising to find that the tough domestic decisions required for international trade liberalization are only possible when a crisis or paralysis of the system opens the necessary political space.

The WTO, however, does not exactly mirror the GATT in this regard. The structure of the WTO makes it much more difficult for members to forge multilateral agreements among sub-sets of the membership. The WTO process is much more all or nothing. Thus, if a substantial coalition of members decides they have no substantive interests to be gained from a round, then the WTO may be transformed into another UNCTAD or UN General Assembly. Members focus on symbolic politics and the display of power in the form of blocking negotiations, which in turn leads to deadlock. In this situation the WTO is destabilized as a trade regime and increasingly irrelevant to international trade. This prediction was en vogue after Cancun among some US academic free traders.²⁷ Still, it is also possible that members will take advantage of the political space created by the current paralysis and act to re-energize the WTO negotiations. For this reason, scholarly analysis should take account of three significantly different scenarios with respect to the future authority and roles of the WTO: 1) bargaining; 2) standstill; and 3) regionalization.

1 The bargaining scenario

To some extent, of course, the long history of GATT negotiations is still a useful indicator of how WTO rounds should be expected to evolve. If GATT experience is a guide, then serious and sustained bargaining in 2004-2005 toward a Doha Round agreement is possible, or even likely. Dedicated new efforts, such as U.S. Ambassador Zoellick's January 2004 letter to 140 members, could gradually stimulate substantive bargaining. More specifically, the deadlock after Cancun could turn out to be another wake up call, similar to that created by Seattle. In this situation, the new G-X will gradually become one more negotiating coalition among the others. Because it has demonstrated significant longevity, it would become a regular actor in building consensus. The EU dialogue with the G-20 on December 11-12 in Brazil is an indicator of its new role and willingness to return to real trade business. Both sides agreed to intensify Doha round talks.²⁸ In this scenario, consolidating the WTO negotiation process and forging a significant final agreement are more important than meeting the interim deadlines. In this scenario, the collapse at Cancun parallels that at Montreal in 1988, which was probably the lowest point in the Uruguay Round.

²⁷ Andrew Rose and Allan Meltzer for example. Irrelevant WTO, in: *Foreign Policy* Sept./Oct. 2003, p. 14

²⁸ <http://www.ictsd.org/weekly/03-12-17/story2.htm>

The realization of this scenario will require that the major traders deliver considerably greater incentives to the DCs and LDCs than those offered at Cancun. Many of these non-OECD traders have very high tariffs and other barriers, which are guarded closely by domestic interests. Given the past US and EU record of delay and non-delivery of key trade liberalization commitments to these states, their negotiators will have to present tangible and deliverable gains in market access and other areas. Not unlike the Marshall Plan, the U.S., EU, and other large traders would be required to invest in the global trading system at a time of crisis. Either the vast majority of WTO members are fully integrated into the regime, or the system grows increasingly irrelevant for them. In the latter case, their role becomes largely symbolic and substantive trade negotiations for the WTO as a whole become impossible.

Integrating the core interests of DCs and LDCs is the single most important step in stabilizing the global trade regime. This will require the gradual formulation and implementation of a revised decision making process which balances North-South interests. A new leadership structure based on the two Atlantic trade powers, plus the most active and involved DCs and LDCs, will be forged in a slow and painful process. The outline of a new process is suggested by the preparations in 2001 for the Doha meeting. The motivation for this on the part of the US and EU is salvaging the global trade system, while handing off increased responsibility to other key members of the enlarged club. A new, larger but loosely composed hegemonic group would lead in consensus building and regime stabilization. Under these conditions, a revised, flexible version of embedded liberalism could take root.

2 The standstill scenario

The standstill scenario assumes at least stagnation, or even decline of the WTO. The main reason for a longer period of paralysis and regime decline is a process of “UNCTADIZATION” of the WTO. Utopian redistribution demands and conflicts along North-South lines of cleavage weaken and destabilize the WTO, which enters a downward spiral of irrelevance. The WTO loses its capability to function as a negotiating forum and its credibility as a forum for working through the major issues of international trade. Instead of looking forward to broaden the scope and depth of issues areas covered, it is reduced to legalistic dispute settlement court based on a stagnant set of trade rules. The main encounters of senior ministers are dominated by symbolic political debate. Their main audience is more the media than each other. Parallel to UNCTAD, the explosion of membership in the WTO is allowed to transform it into a development pressure group.²⁹

A wide range of unstable DC and LDC groups, along with NGOs, dominate the main WTO arenas with increasingly radical redistribution demands. In this situation, business lobbies lose interest and the G-8 and OECD countries decrease their level of participation, concentrating only on the dispute settlement service. They will pursue a wait and see position. If and until substantive trade negotiations are re-established, they generally neglect the WTO as a negotiating forum and pay just lip service. The

²⁹ It might be compared in some respects to UNCTAD under the leadership of Raul *Prebisch*. Joseph *Nye*, UNCTAD: Poor Nation's Pressure Group, in: Robert W. *Cox*/Harold K. *Jacobson*, *The Anatomy of Influence*, New Haven, Conn. 1973, p. 334-370

value system of embedded liberalism is overtaken by development goals, enriched by various forms of protectionism, as well as green, feminist and anti-globalist themes. UNCTAD - WTO cooperation enhances data collection and the development monitoring bureaucracy. The WTO provides much more support on trade and development issues for LDCs, DCs and NGOs, the lowest common denominator for the largest number of members.

A series of grand conferences of poor countries and societal groups is sponsored by progressive governments in Europe and possibly Canada. They also support the development of a wide range of “technical” expertise. The WTO Geneva public symposium of June 2003³⁰ sponsored by the government of Norway was the prototype of a forum with many actors in a widely divergent trade community all on parade. Predictably, these NGOs and individuals were generally biased against the Singapore issues and liberalization policy more generally. This naive approach to integrating civil society and poor countries in fact became a platform for all sorts of old and new protectionists and “Third Worldism.”³¹

Of course, gradually over time the enthusiasm and funding for such meetings is likely to decline. In this situation, the large traders will intensify their efforts toward regionalization and bilateral agreements. At the same time, the small traders will continue to complain publicly about the WTO and globalization, without transitioning away from protectionism and heavy reliance on taxing trade for government revenues. This scenario and the next one could in fact both occur in parallel.

3 The regionalization scenario

The price paid for creating a formal, strong international organization was the loss of the liberalization impetus. The WTO’s new powers and functions resulted in organizational overstretch, which in turn undermined its credibility and effectiveness. Without major liberalization initiatives at the global level, regional trade frameworks capture the main attention and efforts of officials in dynamic trade regions, such as Asia, the Americas and Europe.³² The fundamental balance between international demands and regionalization tips decisively toward the regions. With a marginalized WTO, regions become the main focus of new ideas and initiatives. This process reinforces regional blocs like the EU and NAFTA and creates incentives for emphasis on less developed blocs like APEC and CAFTA. The emerging FTAA deepens and intensifies western hemispheric arrangements and their intra-bloc trade. Intra-regional trade becomes increasingly important, but the focus is regionalism. The blocs are not fortresses, but they function as free agents of increasingly prominent intra-regional trade arrangements no longer adequately contained by the global supervisor, the WTO.

³⁰ Challenges ahead on the road to Cancun, June 17-18, 2003 http://www.wto.org/english/tratop_e/dda_e/symp_devagenda_prog_03_e.htm

³¹ *Bhagwati* of Columbia University, for example, advised poor countries not to expect significant agricultural gains from joining the Cairns group, where they would risk manipulation by Australia and Canada. He suggested, in stead, that they work on their own.

³² *Bernard Gordon*, Getting Trade Policy Right, in: *Foreign Affairs* 82, 2003, 4, pp. 105-118

Relations and arrangements between the blocs will differ in intensity and scope of liberalization. Transatlantic trade will be the most liberal, while the transpacific and Euro-Asian arrangements will evolve under more regulation. In the longer term a new role for the WTO may emerge, but only after a longer period of regional consolidation and predominance. This is not the worst case scenario for the growth of world trade, but it is for the WTO and small traders, particularly the LDCs. Poor countries without an effective regional option are forced to seek out bilateral deals, most likely with the EU or US, or to work only with the special treatment granted through the WTO regime. Regional arrangements of small and weak economies such as the African COMESA or the Common Market for Eastern and Southern Africa³³ simply cannot compete with the major blocs. As pawns in the intra-regional trade chess game, they have little, if any, leverage vis-à-vis other blocs. Some of these weak traders may decide to lobby for a strengthened WTO, but it could well turn out to be too late for the Doha Round. For the other relatively isolated small traders, it could take years before they realize that their interests were best served by fighting through the Doha Round.

Conclusion

The future of the WTO as an international organization and its U.S., EU, and club leadership is threatened by collapse of the Doha Round. Indeed, completing a meaningful development round as committed in November of 2001 is comparable to the very few deepest and most daunting challenges ever to confront the GATT-WTO. The Round represents a fundamental struggle over the distribution of benefits from the global trade system. Moreover, it pits deeply entrenched domestic political interests of the largest, most powerful states in the system against the most basic needs and expectations of many of its least developed members. Finally, it demands resolution of a clash of institutions---development of the global trade regime and WTO against the “holy grail” of the EU project, the Common Agricultural Policy. In this context, tearing down US domestic agricultural support programs and the CAP is likely to require at least a decade. Still, completing a Doha Round appears to require a much deeper and broader slashing back of these closely guarded US and European subsidy programs than ever achieved in the past.

The bargaining, or first, scenario above still could prove the most accurate with respect to progress on the Doha Round in 2004-2005. This would require that the US and EU, both separately and together, provide leadership of the enlarged WTO club that at least equals that prior to the Doha meeting in 2001. Indications of this quality of leadership would include innovations in negotiating process such as the “mini-ministerial” meetings held in preparation for the Doha sessions, USTR Zoellick’s letter sent to 140 trade ministers in January encouraging serious negotiations in 2004, and new US and EU compromises in reducing domestic support programs in agriculture. Given the nature of the Doha Round, US officials will have to show new flexibility on how much reciprocal liberalization is demanded of least developed members. Larger developing states such as India should be expected to liberalize on

³³ <http://www.comesa.int/about/>

a gradual basis, but full market access should be granted to the 30 LDC members without reciprocal concessions.

A standstill scenario could well be indicated by continuing G-20 insistence that no progress on the Doha Round can be expected until their demands are completely fulfilled. If they persist, the WTO could be transformed into a service oriented, technical and development support organization. Their New Dehli agenda of March 4-5, 2004 does not provide much ground for optimism that they intend to move from a role of demandeurs to negotiators.³⁴ For key members, this would undermine the sources of its long term credibility. Certainly serious decisions must be taken about the role of not only development in the WTO but also environmental policy and labor rights. To the extent that recent past civil society conferences are indicative of the WTO's core goals for the future, the support of major member states will be erased. However, it is equally dangerous to hold such sessions without intending to take them at all seriously. Once expectations are raised that the WTO might be a forum for non-governmental representatives to participate directly in its processes, then the organization is radically reoriented toward symbolic politics. Of course, the WTO is still working through the appropriate roles and influence of non-state actors in its various activities, but certainly they cannot play a direct role in trade negotiations. In other areas of WTO activity, such as technical assistance, a more direct role may be appropriate.

The regionalization scenario is in part playing out in reality as the EU aims to build an ever larger set of satellite agreements around itself, and the US pursues its "competitive liberalization" strategy. Once the Bush Administration won Trade Policy Authority from Congress in 2002, it pursued an aggressive agenda of regional agreements such as the Central American Free Trade Area and bilaterals with Singapore, Chile, and other states. Indeed, there is a clear element of competition between the two largest trade systems arranged around the US on the one hand and the EU on the other. The EU has built an international network of about 100 states interconnected by bilateral and regional agreements. Without serious progress in the Doha Round, the US and EU are likely to pursue even more ambitiously bilateral and regional agreements, thus tipping the balance toward an ever more complex and varied patchwork of such agreements worldwide. Unfortunately, to the extent that the WTO loses authority and momentum relative to regionalism, the quality and scope of regional agreements is likely to decline. Furthermore, the least developed countries and even many developing countries (DCs) lose ground in the balance of gains from trade as the more advanced DCs, e.g. Chile and Singapore, are most often involved in the higher payoff bilateral and regional deals.

In sum, the stakes are high for completion of a Development Round that wins the agreement of the WTO membership. Past GATT experience indicates that failures such as Cancun, even more general crises in the world trade system, can be essential to creating the political space required to advance the global trade regime. It is premature to assume, however, the direct relevance of this model to the new WTO context. Past failures were overcome with a smaller overall membership, a more limited number of members in the club that needed to reach consensus, and an ability to move ahead with the willing members while others opted out of certain arrangements. By 2004-2005 a new level of US, EU, and enlarged club leadership is de-

³⁴ ICTSD, Bridges Weekly Trade News Digest 10.3.2004

manded, and a very diverse overall membership must reach a consensus on any overall negotiation package. At the same time, continuing improvements in WTO accountability will likely be required to address the political opposition to economic globalization. To the extent the past is a guide, these critical ingredients are not likely to be generated during a US presidential election year.