

# **Who Will Reform the WTO? Power, Purpose, and Legitimacy in Institutional Reform**

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Institutional reform involves the re-designing of institutional arrangements. It takes place at a time beyond the initial formation of the institution itself, and thus seeks to modify or abandon existing institutional mechanisms or to supplement them through the "layering" (Pierson 2001) of additional arrangements. Institutional design, or for that matter institutional redesign, is important to study at this critical juncture of the World Trade Organization (WTO), whose most recent meeting in Geneva in July 2008 ended yet again in a stalemate and a collapse of the talks. The lack of success and perhaps even progress in the Doha Round is indicative of a time that is ripe for considering issues of reform for an organization that, though cast in a more formal organization than its predecessor, the General Agreement on Tariffs and Trade (GATT), has very much been a Cold War legacy that has governed trade throughout the post-World War II years.

In considering the various issues related to reform of the WTO, this memo directs greater attention to actors who, by virtue of their status as great powers and the world's leading traders, are likely to wield pivotal influence in any such efforts. It advances the argument that the particular path of institutional reform and its consequences for how the benefits of the regime are to be distributed among its participants are contingent on the identities of these powerful actors and the purpose they bring to any reform program. The fundamental question of leadership underlies any efforts toward reform of the WTO. That is, how will the United States, as the original principal architect of the global trade regime, now participate in institutional reform, assuming there is sufficient political will to do so, in the face of shifting power relations that give greater prominence to the emergent economies of the developing world? Put differently, what are the cooperation problems they will face that will determine the kinds of institutional arrangements that will comprise yet another point on the "Pareto frontier" (Krasner 1991)? The institutional arrangements that result from resolving cooperation problems among the WTO's most powerful economies will, in turn, yield distributive outcomes that produce winners and losers.

As of this writing, we remain in the era of the “Doha Deadlock,” with the fate of the Doha Round of trade negotiations under the WTO uncertain, if not bleak. Most recently in July 2008, trade talks collapsed once again at the end of an intense nine-day meeting of the 153-member global trade governance body. The latest breakdown in the Doha Round negotiations follows a similar breakdown in talks two years earlier, in July 2006, when another “time-out” was called, this time called by Pascal Lamy, Director-General of the WTO. In the July 2008 talks, aside from the usual tussle over tariff rates and market access for sensitive sectors, the failure of the talks resulted directly from the disagreement of the United States and two emerging economies—China and India.

The major issue of contention among the three countries, and ultimately the one issue of disagreement that led to the collapse of the talks, was that of “special safeguard mechanisms,” what Director-General Lamy referred to as item 19 of the 20 “to-do” list for the meeting’s participants.<sup>1</sup> Specifically, these safeguards would provide an insurance policy of sorts for difficult economic times, especially for developing countries. These safeguards would include import rules that would allow developing countries to protect their agricultural markets by imposing tariffs on certain goods should there be a drop in prices or a surge in imports. The disagreement was over the threshold for such a contingency, with U.S. arguing that the “safeguard clause” for protecting developing countries’ agricultural imports set an excessively low threshold for imposing tariffs.

### *Power Shift*

The breakdown of the Doha Round talks in July 2008 are strongly suggestive of and reflect an emerging new architecture of power politics in the international economy, in which at least in the context of the WTO, emergent powers India and China were pitted against the United States. Moreover, while the “go-it-alone” power of the United States dominated the construction of the GATT and other post-World War II institutions, in this era of the “Doha Deadlock” many countries, noting the inequalities that the current regime has produced, have begun to advance the position that “no deal is better than a bad deal.”<sup>2</sup> While scholars continue to debate the status of the United States as “empire” and examine the features of its hegemony, others call witness to what some have called the passing of the unipolar moment of the post-Cold War era, as the formerly undisputed leadership of the United States has given way to the realities of the U.S. financial crisis and perhaps the emergence of the G-20 as the new “enacting coalition” (Gruber 2000) of the 21st century.

The membership of the G-20, comprising the world’s most powerful countries and representing 85 percent of the global economy, are very much indicative of which countries hold sway in the current international political arena.<sup>3</sup> As the leaders of these economies gathered in Washington, D.C. in November 2008 to deliberate on the reform of international financial institutions such as the International Monetary Fund, the question of “who will reform the WTO?” becomes ever more pressing, as we consider the participation of the newly powerful BRIC countries—Brazil, Russia, India, and China—who will likely have a hand in the reform or

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<sup>1</sup> [http://www.wto.org/english/news\\_e/news08\\_e/meet08\\_summary\\_29july\\_e.htm](http://www.wto.org/english/news_e/news08_e/meet08_summary_29july_e.htm). See also <http://news.bbc.co.uk/2/hi/business/7532168.stm>. Though the issue of special safeguard mechanisms led directly to the breakdown of the talks, they also produced no agreement on reducing the European Union’s tariffs on banana exports from Latin American countries, which are currently charged import duties while those from the ACP (African, Caribbean and Pacific) countries enter the E.U. market duty free. Nor did the talks even address the concerns of African countries regarding U.S. subsidies for cotton. Indeed this report notes that by the end of the nine-day meeting, the African countries were not even represented in the core negotiating group.

<sup>2</sup> <http://news.bbc.co.uk/2/hi/business/7532168.stm>. Accessed 15 December 2008.

<sup>3</sup> The G-20 countries include Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, the United States, and the European Union.

construction of governance mechanisms in the international financial system.<sup>4</sup> Though the summit produced no substantive plans for restructuring the international financial system, the meeting was notable for “who was there” and the symbolism afforded by the participation of newly powerful developing countries such as the BRIC group as well as Saudi Arabia.<sup>5</sup> Thus in the governance of the international economy, we may well observe the first of the institutional initiatives in the financial sector, as a result of resolving cooperation problems among these disparate set of leading actors, with significant implications for how these leading actors will now shape the evolution of the WTO and global trade governance more broadly.

### *Retreat or Reform?*

The existing scholarship in international relations suggests two main directions for the future of global trade governance. One is to retreat from the multilateral trading system as we know it, and instead supplanting it with a complex network of bilateral and regional trading arrangements. As much as the WTO represented one of the “clearest” examples of institutional binding on the part of the leading economy—the United States (Ikenberry 2004, 218), the latest suspension of talks and the expiration of the U.S. Executive’s trade-promotion authority have been attended by a long-term “proliferation” of preferential trade agreements in the post-Cold War era (Mansfield 1998). Many have suggested that the collapse of the Doha Round talks may well signal the end of the multilateral trading system and that global trade governance may devolve into bilateral and other forms of limited trade agreements in which countries focus on individual trade concerns rather than with a view to a liberal trading system. The repeated failure of the talks and the lack of progress since 2001 over key issues such as farm subsidies and the liberalization of trade in services, especially in banking and telecommunications, have undermined the credibility of the multilateral trade governance body, and has led to more movement toward bilateral and regional trade agreements.

The failure of the talks has led member countries to declare variously their intention to pursue bilateral agreements, such as the statement from Indian Trade Minister Kamal Nath in July 2006, when the “time-out” was called of his country’s intention to pursue separate agreements with the E.U. and Japan.<sup>6</sup> Indeed, scholars such as Mansfield and Milner (1999) have pointed out that one of the important factors that explain why countries form preferential trade agreements (PTAs) is the lack of success in the multilateral forum of trade negotiations.

Regional and bilateral trading arrangements in the form of PTAs may well signal retreat from the multilateral trading system under the GATT and WTO. The world now is also increasingly marked by trading blocs, raising concerns that trade is no longer multilaterally oriented but rather regionally or even bilaterally oriented. Arguments for their proposed benefits, whether in security dividends (Mansfield and Pevehouse 2000) or reductions in trade volatility (Mansfield and Reinhardt 2005), have relied almost exclusively on trade-creation effects. However, PTAs may well produce trade-diversion effects (Viner 1950), in which the political and economic benefits of participation in a PTA are offset by the costs of diversion, or reduction, of trade with non-members. To the extent

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<sup>4</sup> Russia is currently in the process of negotiating its accession to the WTO.

<sup>5</sup> <http://news.bbc.co.uk/2/hi/business/7731889.stm>.

<sup>6</sup> <http://news.bbc.co.uk/2/hi/business/5216080.stm>. Accessed 16 September 2007.

that PTAs have strong trade-diversion effect, and states are increasingly turning toward such arrangements, the aggregate effect on the global trading system may well be less rather than more liberalization in trade, more volatility, and more protectionism (Foroutan 1998). Moreover, the move by the United States in recent years towards preferential trading agreements such as the controversial Central American Free Trade Agreement (CAFTA), have led to warnings that the global trading system may indeed be headed (back) towards discriminatory trading arrangements and that the U.S. strategic position is likely to be significantly weakened by such a trend (Gordon 2003). As noted earlier, some 380 regional trading agreements (RTAs) have been notified to the WTO as of July 2007 and 205 of these are currently in force.<sup>7</sup> The changing landscape of trading arrangements raises important questions as to the extent to which governance of international trade is likely to devolve to these bilateral and regional institutional mechanisms and what impact they will have on the ability of the WTO to continue to govern trade.

The second option is one of reform, but one which entails a radical overhaul of the normative foundations of global governance and calls for a different fundamental bargain among the world's economies. Though this is the prime arena of contestation in which the "anti-globalization" movement and the opponents of the WTO stake their claims and calls for change, the issue of reform of the global trade regime reflects the emergence of important questions regarding power and institutional design in the 21st century. One of these is whether the great power politics that drove GATT's original bargain still holds sway and the extent to which the imprint of U.S. leadership in the GATT and later the WTO still holds weight in this globalization era. Such a question becomes all the more pressing given emerging claims of a "tectonic shift" in power relations from figures such as James Wolfensohn, former president of the World Bank.<sup>8</sup> Wolfensohn argued that "economic power is moving eastward" and away from the leading economies, the United States and Europe, and there is greater need to acknowledge the role of countries such as China and the need for address social problems in these countries, where high growth has occurred at the expense of poor labor conditions. Indeed, at its extreme, calls for reform from the opponents of the WTO have at the core a fundamental questioning of the capitalist underpinnings of the current liberal order, a position that has been extensively criticized as "misapprehensions" of the anti-globalization camp (Bhagwati 2002). Nevertheless, those who argue for reform of the global trading system have injected into the debate calls for equity and social justice (Stiglitz and Charlton 2005) and economic justice extending the domestic social compact to the international society (Kapstein 2006)

### *Leadership in the 21<sup>st</sup> Century*

Whether the choice is retreat from the multilateralism of the GATT and the global trading system as we know it or the re-organization of global trade governance under fundamentally different normative foundations that combine the market with some form of distributive justice, the question of leadership, that, is who leads and how that leadership is to be exercised, may well be one of the most pressing questions of our time. Given the increasing importance of emergent economies such as China and India and their capacity to act at least as "veto points," any efforts toward WTO

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<sup>7</sup> [http://www.wto.org/english/tratop\\_e/region\\_e/region\\_e.htm](http://www.wto.org/english/tratop_e/region_e/region_e.htm). Accessed 18 October 2007.

<sup>8</sup> <http://news.bbc.co.uk/2/hi/business/7006172.stm>. Accessed 26 September 2007.

reform is likely to be shaped by how the U.S. and E.U. as current leaders of the global economy will address the cooperation problems that arise as a result of the participation of these emergent economies. These new actors are notable for the diversity they bring to the leadership, in terms of the nature of their political and economic systems, level of development and most importantly, the uncertainty regarding their commitment to a multilateral trading system. Moreover, these countries do not share, unlike the U.S. and the countries of Europe, the historical memory underlying one of the original purposes of the GATT/WTO, which was to combat the bilateralism and discriminatory trade practices of the interwar period. Thus some sixty decades later, as we contemplate the future of global trade governance, the legitimacy of any WTO reform lies in the collective capacity of the leading economies to resolve cooperation problems and signal credible commitment to the rest of the trading world of their adherence to and continued support of a liberal trading order.