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February 24, 2009

Future of the WTO: End of multilateralism?

Richard [pronounces](#) that "as a location for trade negotiation, the WTO is dead". Looking at the dismal trackrecord of the the past 7 years of negotiations, current political economy climate, the extent of disagreements among the key trading nations, and the urgency of policy priorities elsewhere, that may well be an accurate projection at least for the next five to ten years.

Even in the life after the financial crises, the structural problems undermining the WTO prevail, impeding states' ability to reach a consensus that is required for agreeing on any new commitments. Daniel refers to the variation in internal characteristics among the great powers as a primary reason for the deadlock. While the US and the EU have their differences, those differences are even sharper between the US and the EU on one hand and the emerging and the developing countries on the other. In addition, BRIC countries' composition of production and trade further ensures that they are not a coherent block and hence less likely to be able to lead a coherent coalition. All BRIC countries pursue export-driven growth but rely on very different industries in generating that growth. China exports primarily manufactured goods, India services and Brazil agricultural products. Russia's economy, if admitted to join the club, depends on natural resources. Thus, what is common among the emerging economies, is their willingness to counter-balance the US and EU created trade order rather than their shared preferences on the priorities of the trade agenda. We are therefore more likely to continue to see them exercise veto-power rather than set the agenda for any new trade rounds.

So have we come to the end of multilateralism?

What is troublesome about the stalemate in the WTO is that it gives us little faith in the future of multilateralism in general. The issues are no less controversial and the preferences even further apart when it comes to addressing energy crises or the climate change. If we cannot agree on modest cuts on agricultural subsidies or further liberalization on services, the prospects for a binding, ambitious climate change treaty begin to look dim.

States may still rescue the Doha Round by agreeing to a modest set of commitments in order to signal their continuing commitment to trade liberalization and multilateralism when both are widely seen to hang in balance. Nothing meaningful, not to mention anything approaching the achievements of the Uruguay round, is however likely to be accomplished anytime soon. However, as Richard and Greg both acknowledge, the WTO still acts as a constraint when states are responding to other political challenges, including bailing out their domestic industries. The trade regime also sets boundaries on states' attempts to tackle climate change through subsidies, various border measures and discriminatory

tax regimes. WTO's dispute settlement system also ensures that the institution remains relevant even when the political process aimed at new commitments is deadlocked.

This keeps the WTO on the map for its possible later revival -- even as a forum for negotiating new trade deals. However, those deals are likely to be plurilateral rather than truly multilateral. Alternatively, they will be multilateral with significant opt-outs. Greg's proposition for "critical mass" decision-making, for instance, seems only feasible with the right to opt out of an agreement that a state is not prepared to sign onto.

While my optimism is tempered, I am not prepared to predict that there will be no more trade deals within the WTO. But the dynamics that drive the process ensure that any WTO deal will look quite different from what was accomplished in the end of the Uruguay Round. That was a different era of multilateralism that we are unlikely to return to. The emerging powers have shown that we have turned the page. Who writes the next chapter, however, is more complicated to agree on.

Posted by Anu Bradford at 08:13:00 AM in [Bradford, Anu](#)

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I find Richard's application of hegemonic stability theory to the WTO a bit jarring. With 150+ members, lots of give and take, and lots of evidence of U.S. non-dominance, isn't the WTO evidence against HST? Moreover, it takes a special kind of modernism--a faith in a kind of infinite progression of international economic integration--to pronounce the WTO dead, or to declare that it is finished as a forum for multilateral negotiations. I would favor deploying a theory from a different part of Chicago: the international law Coase theorem (ILCT). The ILCT would suggest that states enter into treaties, including new rounds of WTO negotiations, in order to overcome transaction costs, including strategic costs, in connection with valuable transactions. ILCT is founded on cost-benefit analysis. Where the benefits of the transaction are small, therefore, the costs might not be justified. I think this explains where we are in the DDA far better than HST. The ILCT also leaves room for technological, social, economic, and ideational change that might make it worthwhile later to use the WTO. In fact, the WTO institutional structure is now a distinct and valuable institution, which in turn will enable transactions and contracting that would not have been possible in its absence. I was going to use a Mark Twain reference regarding premature reports of death, but I like this one better:

"theories don't prove nothing, they only give you a place to rest on a spell, when you are tuckered out butting around and around trying to find out something there ain't no way to find out..." - Mark Twain, Tom Sawyer Abroad

Posted by: Joel Trachtman | [February 25, 2009 at 09:24 AM](#)

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February 24, 2009

Future of the WTO- Liberal Ideas and Domestic Politics (Gregory Shaffer)

I don't think the WTO as a forum for negotiation is dead, unless one believes in resurrection. To me, our generally pessimistic comments raise a series of important issues, but do not mean the end of multilateralism. States still have incentives to engage in multilateral negotiations. The world may have "deglobalized" these last months with economic collapse and a concomitant collapse in trade flows, but countries will remain too economically interdependent to not engage in multilateral negotiations, including trade agreements, down the road. Yes, negotiations with a small numbers of players and with a dominant economic hegemon go more quickly. But they are not conditions for multilateral agreements.

The key challenge now is not simply explained by realist concepts, such as shifts in the distribution of power and their impact on relative gains for countries in competition with each other. The perception of absolute gains still matters. And domestic politics still matter for the formation of national positions (a liberal internationalist position). If export-oriented interests mobilize in countries, including the BRICs, they will push for reciprocal market openings. Brazil, for example, pushed hard for a conclusion of the Doha Round because its agricultural export interests had much to gain. The key challenge now is that domestic interests are not mobilized in key WTO members. They never were in the US and the EU for this round, which limited what US and EU negotiators could do. And as I wrote in my first post, this is not a propitious time to see new domestic mobilization for trade liberalization.

That brings us to the role of ideas, including perspectives of WTO legitimacy as a forum for liberalization, which has not been addressed in posts so far. It is no coincidence that the GATT was signed after WWII following the Great Depression, and that the Uruguay Round was concluded and the WTO created following the Berlin Wall's collapse and the discrediting of socialism. Yet we are now seeing shifts in domestic opinion that will be less favorable to trade liberalization. Trade negotiations for further liberalization thus do not bode well in the near term. In other words, the economic crisis is not just about political priorities shifting away from trade; it is also about shifting perceptions regarding the benefit of open markets. This loss of faith in liberal markets will affect the constellation of domestic pressures on government negotiators.

Market power matters in affecting WTO negotiation outcomes, as we have all shown in our work. But so does the mobilization of domestic interests and ideas about trade liberalism. Thus, in my view, while the WTO as a negotiating forum is indeed deadlocked, it is not dead in the sense that it is forever gone. We just need to be realistic about what it can accomplish in these times. Acting as a useful shield against protectionism is not insignificant.

Posted by gshaffer at 05:38:00 PM in [Guest Bloggers](#)

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February 25, 2009

Future of the WTO: Noise versus Trend (Richard Steinberg)

Of course the claim that the WTO is dead as a location for negotiation was a bit rhetorical, intended to drive home the point (not rhetorical) that the GATT/WTO system is of decreasing importance as an engine for trade liberalization. Anu, Greg, and Daniel would seem to agree. Yet I think I am more pessimistic about the WTO than Anu and Greg (not yet sure about Daniel).

Yes, conclusion of the Doha Round is possible—but what a disappointing and modest result it would be. And yes, dispute settlement may help restrain protectionism in the next few years (which is not trivial, when one thinks back to the Great Depression) and advance a process analogous to the ECJ's "negative harmonization" period in the 1970s and early 1980s—but court-led liberalization is slow and piecemeal. Plurilaterals or a variable geometry in the future? Maybe, but there are disadvantages (as well as advantages) of doing that at the WTO. At best, multilateral liberalization is on a very slow track.

It is not clear that multilateralism is dying at the same rate across all issue areas. The structure of multilateral games varies across issue areas (and linkage across issue areas is usually not part of the story).

Nonetheless, I am pessimistic enough to raise the idea that hegemonic stability theory (which has long thought to have been dead) may have been fundamentally correct. Not in its brittle stalks form (there are lags, of course, as institutions and words matter), but in its basic structural claim that as power diffuses, global regimes will weaken. Power is diffusing, not just in trade, but also in finance and military affairs. [The idea that we live in an imperial or hegemonic world (which was taken for granted by many just eight years ago) is not so easy to defend. In historical terms, Iraq was a small war, yet we are spent. "The most powerful nation in the world" is beside the point. Putin owns the Caucasuses and is (diplomatically) pushing the Yalta line in the Balkans. The PRC is building naval capacity at a rapid rate. Nukes are diffusing. . . As for money, do I need to make the argument?]

If hegemonic stability theory is essentially right, then the golden age of international law is ending. Global law-making is harder; more international law-making will be regional or plurilateral. This seems roughly consistent with the story in trade: gridlock at the WTO and the explosion of regional and bilateral free trade agreements.

And if the theory is essentially right, then the examples that Anu gives for tempered optimism about the future of the WTO, and Greg's proposal for reforming the main decision-making rule and arguments about export-oriented interests still favoring liberalization, look more like noise than the main story-line for the WTO.

[In the next installment, I may have to back away from hanging my hat on hegemonic stability theory alone, but I am kind of curious how much weight the idea can bear. . .]

Posted by Richard Steinberg at 01:02:00 AM in [Guest Bloggers](#)

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February 25, 2009

Future of the WTO: Judiciary taking the lead?

Richard and Greg's entries offer a stark contrast about where the WTO is heading and what factors are relevant in determining the faith of the institution. Is the future of the WTO determined by power, domestic coalitions or, ultimately, norms and ideas?

Greg calls for the mobilization of domestic interests and ideas about trade liberalism as a solution to the current deadlock. Domestic coalitions have lost their faith in liberal markets. Without domestic support and, consequently, the prospect for political rents, states have little incentives to negotiate new trade deals.

Given the degree of economic interdependence today, one would expect there to be an even more positive domestic political economy story in favor of free trade. Traditionally, we rely on exporters to counter the protectionist pressures generated by import-competing industries. With a dramatic growth in intra-industry trade, pro-trade coalition of exporters should be joined by a large number of domestic producers who rely on imports as inputs or raw materials. In addition, the extent of foreign direct investment (FDI) would be expected to create new interest groups that benefit from free trade. For instance, if the US were to raise trade barriers vis-a-vis Chinese imports, we would expect US exporters and US companies relying on Chinese goods as inputs object the measures. But shouldn't also an increasing number of US companies that are established in China and that export their goods back to their home country rally against the proposed measures? I agree with Greg that we do not currently see strong interest groups favoring new WTO deals. But the bottom-line is that there are winners and those winners do have a stake in the system. The fundamental political economy rationale of trade liberalization has therefore not changed. Quite the contrary.

I agree with Greg that mobilizing domestic interest groups and reviving the ideology of free trade is crucial. However, I agree with Richard that given the distinctly diffused power structure, it is hard to translate those ideas or domestic preferences (if and when exerting their free trade voice more loudly again) into meaningful multilateral agreements among states. Richard raises the hegemonic stability theory to predict that "the golden age of international law is ending." In the absence of hegemon, we should not expect to see progress in the WTO. While it seems right that the existence of a hegemon can facilitate multilateral trade negotiations, Joel Trachtman's note (linked to my earlier post) that the major achievements within the WTO, including the Uruguay Round, took place without a presence of a hegemon shows the limits of the theory. The structure of international trade has for a good while been bipolar with the EU constraining the US, if not at times tri-

polar (Japan). But the underlying idea that a diffused power structure is not as conducive to multilateral trade liberalization remains valid.

Let's take Richard's assumption about the importance of a hegemon as given for a moment. If we indeed needed a hegemon to provide a multilateral trade regime, we would be very unlikely to see another trade round. There will be no single trade power in the decades to come. Economic power already is, and will become even more, diffused among a heterogeneous group of states. That being the case, Richard alludes to an interesting scenario that parallels developments in the European Union. In the absence of progress in political integration in Europe, the dynamics shifted to the European Court of Justice (ECJ). We saw an activist ECJ that was advancing European integration with bold and lasting steps.

In the WTO, this would mean a shift from a political to judicial trade liberalization process whereby existing deadlocks would be solved by the WTO dispute settlement body (DSB). Richard argues that this would be slow and piecemeal. But so can be the negotiation rounds, Doha being a prime example. And the experience from Europe shows that ambitious and trusted courts can advance economic integration with great leaps and only retreat when the political process catches up. So one scenario for the WTO is an increasingly bold and empowered DSB that takes ownership of the future of multilateral trade liberalization and will push for activist rulings until the political process is prepared to redeem its place as an engine of economic integration through state-to-state negotiations. Whether the DSB-led trade liberalization would be normatively desirable, however, is another matter.

Posted by Anu Bradford at 11:41:00 AM in [Bradford, Anu](#)

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February 25, 2009

Future of the WTO: "Death" of the WTO and Hegemonic Stability Theory

Thank you to Richard for the provocative and interesting comments about the death of the WTO and hegemonic stability theory (HST). Let me address the WTO issue first and the HST question second.

While I am certainly extremely pessimistic about the immediate prospects for breaking the gridlock at the WTO or producing tangible results from the Doha round, I am not sure that it is completely helpful to think in terms of the WTO's life or death. Perhaps it is better to ask if the structural and political conditions under which the WTO can succeed as a negotiation venue still exist. I think the answer is no. If the internal economic differences among the great powers is more pronounced today than in the past, to see any multilateral progress we would need a greater convergence of economic interests. As Anu noted, "China exports primarily manufactured goods, India services and Brazil agricultural products. Russia's economy, if admitted to join the club, depends on natural resources." Moreover, as Richard points out, the China, India, Brazil and Russia share of the WTO's GDP is growing and might approach "multipolarity" in 2025. If Anu and Richard are correct and about the internal characteristics and my tentative claim about the necessity of shared economic interests among great powers is true, it appears that the WTO's lacks the underlying conditions for success as a negotiation venue.

For the time being, it seems like the WTO will struggle. But, as Richard notes, it does not mean that we will not see continued regional and bilateral trade deals. Greg is probably correct in stating that global interdependence has gone so far and the incentives for continued discussion are so great that we should still see some form of continued liberalization; I am just doubtful that the forum will be the WTO. Greg locates some of the WTO's challenges in domestic politics and points out that some key domestic groups in emerging economies have not been mobilized that would presumably support the WTO as a negotiation venue. While I agree that domestic preferences matter, it is not clear if they always cut in favor or against trade liberalization, whether at the WTO or regional level. Domestic groups may very well push for a new policy of trade liberalization that includes greater concern for internal social and political distributional consequences. They might prefer agreements with countries that share more compatible economic interests, making the WTO a next-best option after regional and bilateral agreements. Domestic preferences might have significant variation that could both hurt and hinder trade liberalization. For me, the diffusion of economic power and diversity of economic interests among great powers--a change in the underlying conditions--have limited the WTO's capacity as a venue for negotiation.

What is HST? Though HST is quite contested, it basically stands for the proposition that a hegemonic state is a prerequisite for the operation of an open, international trade or financial system. The hegemon deals with the collective action issues--state-by-state interests trumping the global benefit of trade--by providing free trade as a public good. Why? It is in the hegemon's self interest because the hegemon is arguably the biggest beneficiary of the open trading and financial system. For many, HST simply transports some of the realist predictions about outcomes in the security realm and applies them to the trade world.

As one might imagine, this is difficult to prove. First, the data is limited and difficult to falsify. We have basically two test cases: the UK in the mid-19th century and the US over the past 60 years (even this is contested--see Joel Trachtman's post about the WTO as evidence against the HST). Second, it is not clear what a hegemon is, how long it needs to dominate the international system before an international trade system is evident, or if it must necessarily be democratic. Third, it is not clear that free trade is impossible in bipolar or multipolar systems, particularly since previous periods of interdependence were ended by great power wars that, in this day and age, are much less imaginable. Fourth, some argue that it is not the hegemon's presence per se; rather it is the willingness of other states to accept some sort of hierarchy in international politics. It is conceivable, if you are a constructivist or institutionalist that the norm of free trade and its attendant institutions could last well beyond the dominance of the hegemon, leading to open international trade systems even in its absence.

That being said, HST might show some sort of correlation with free trade but not causation. Though I have not read the literature on the point recently, HST likely implicitly assumes that the economic interests of the hegemon are at least somewhat consistent with the economic interests of the other powers; if not, it is not clear how it would impose its will without purely coercive methods. And, in today's world, since it is unlikely that coercion is an option and great power economic interests appear quite diverse, the result may be a free trade system that has reached its limit--a system not unlike the WTO.

Finally, Richard states that "multilateral liberalization is on a very slow track," and Greg states that "[w]e just need to be realistic about what it can accomplish in these times." Maybe the death of the WTO is a narrow question about the glass half-empty or half-full...

Posted by Daniel Abebe at 12:51:00 PM in [Abebe, Daniel](#)

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February 23, 2009

Discussion: Future of the WTO

This week, the Faculty Blog will host a discussion on the question of how the shifts in the balance of economic power challenge the existing international economic order in general, and the World Trade Organization in particular. Assistant Professor of Law [Anu Bradford](#) will initiate the conversation, and she will be joined by Assistant Professor of Law [Daniel Abebe](#), [Gregory Shaffer](#) of the University of Minnesota, and [Richard Steinberg](#) of UCLA. Feel free to join in the discussion!

Posted by UChicagoLaw at 11:00:00 AM

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February 23, 2009

Future of the WTO (Anu Bradford)

The WTO's troubles began much before the financial crises erupted. Trade protectionism is on the rise but the institutional foundations of international trade deals have been shaky for several years. The Doha round of trade negotiations, commenced in 2001, has repeatedly stalled as states have failed to reach a consensus on key issues. These difficulties have undermined the efforts to multilaterally reduce remaining trade barriers and shifted the momentum of trade liberalization towards bilateral and regional trade agreements.



Why have multilateral trade deals been so difficult to conclude in the past years? The WTO has been hailed as the most effective international institution that has delivered enormous welfare gains to its members since the GATT Agreement was first negotiated in 1947. In 1995, when the contracting parties of the GATT established the WTO and expanded the institution's mandate to include services and intellectual property rights, the continuing progress towards a truly liberal multilateral trade order built around the all-mighty WTO seemed inevitable.

Much has happened since the conclusion of the Uruguay Round. Most importantly, what has complicated the WTO's ability to facilitate international trade agreements is the fundamental shift in the balance of economic power that underlies international trade negotiations. At the end of the Uruguay Round in 1995, the United States and the European Union were in the position to dictate the negotiation agenda, facing few constraints from the other contracting parties. Now, in contrast, the talks are frequently brought to a halt by developing countries that vocally resist the imposition of US and EU's trade preferences on them. Most recently this past July, the attempts to revive the Doha Round in Geneva failed due to the opposition of new trade powers, India and China. The US and EU are facing an entirely different strategic situation whereby their power is increasingly constrained by that exercised by the recently empowered emerging economies.

This new economic order that is replacing the American brief hegemony (or, in the field of trade, the shared dominance of the US, the EU and perhaps Japan), has been characterized as the age of "multipolarity" or "non-polarity", referring to the inability of any single economic power alone to exercise leadership over international economic affairs. In 2001, Goldman Sachs published a provocative report "Dreaming with BRICs: The Path to 2050", outlining a staggering picture of what the balance of economic power will look like in the coming decades as the BRIC countries – Brazil, Russia, India and China – catch up and even surpass the current G-7. In this new economic order, the US, together with its traditional allies and trade partners, shares the stage with emerging trade powers that constrain what the US can accomplish. And the relative power

exercised by the US will only continue to decline in the coming decades.

So how will international economic institutions, including the WTO, adjust to this new economic order? How can it accommodate the emergence of new powers?

A pessimistic scenario suggests that the WTO does not adjust. The institution that rests on consensus-based decision-making might well have reached its limits and is not capable of delivering new benefits to its growing membership. The governments have arguably already satisfied the most salient needs of their powerful interest groups, leaving a dwindling pool of uncertain and contested benefits for states to negotiate in future trade rounds. These remaining benefits are naturally more difficult to negotiate among a growing group of distinctly heterogenous trade powers. This line of developments would marginalize the WTO's role with respect to future trade liberalization commitments and leave the institution in the role of adjudicating disputes stemming from existing agreements -- with uncertain success. Thus, the best hope for free traders would be to pursue more modest agreements in bilateral and regional settings.

A more optimistic scenario about the WTO's future maintains that the gains available through bilateral and regional trade agreements do not make the institution obsolete. > Under this view, protectionism continues to resurge and will span across global markets. New trade barriers are erected. If decades of hard won gains from multilateral trade liberalization are suddenly reversed, states may concede that bilateral and regional solutions will not be sufficient to halt the trend. The unraveling of previous liberalization commitments underline the need for an enforcement mechanism, which is already embedded in the WTO system. In this respect, states have few alternatives to the WTO. This view predicts that the WTO will remain the central pillar of the world trade system.

Even under the optimistic scenario, however, it is hard to imagine that the WTO could retain its relevance without undergoing significant institutional reforms or adopting changes in ways trade deals are negotiated. First, grand bargains akin to the one reached in the Uruguay Round seem increasingly unlikely in the future. A "single undertaking" whereby all agreements are concluded by all states are almost unimaginable in the present environment. Any such comprehensive negotiation agenda is likely to lead to the lowest common denominator that the US, EU, Japan, China, India and Brazil and several other new key players can agree on. At the same time, it is difficult to see how such diluted agreements would offer any net gains that would justify long, complex and costly negotiations that big WTO rounds involve. Without a prospect for substantial gains, states are likely to shift to other institutional fora where agreements are faster, cheaper and more certain to reach. A better strategy for those willing to preserve the WTO's central role would thus be to relax the single undertaking approach and move towards more plurilateral agreements among a smaller group of like-minded trading nations. Whether this would fragment international trade order any less than the ongoing move towards bilateral and regional trade agreements, however, is less clear.

In any event, the old model where the US and the EU determine the direction of the trade talks is no longer sustainable. International institutions cease to be relevant when the decision-making structures no longer reflect the distribution of power among the member states comprising the institution. The difficulty today is that there are too many trade powers with too divergent preferences for there to be effective leadership for the WTO. And without effective leadership, the institution of 153 members is increasingly without a direction.

Posted by Anu Bradford at 11:08:00 AM in [Bradford, Anu](#)

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February 23, 2009

Future of WTO (Daniel Abebe)

Anu's very helpful post presents the WTO's challenges quite clearly: how can the WTO in its current form function effectively in light of the rise of new economic powers? While this post agrees with Anu's analysis, it tentatively locates the problem not only in the failure to modify the WTO's institutional rules to the current distribution of economic power but also in the variation in economic development of the emerging states and the size of their economies. Anu mentioned the fact that there are "too many trade powers with too divergent preferences" complicating the WTO's efficacy. This is correct and also produces a puzzle. If we assume that the great powers are "great," in part, because of the size and development of their economies, why should we see tremendous variation in preferences among these similar great powers on trade issues? A realist story would predict that the great powers would collude and coerce the developing countries and, if unsuccessful in economic coercion, they would perhaps exercise military coercion as well. As Anu described, this is not working in today's WTO. It leads me to ask the following questions: First, how does the increase in the importance of international trade in the post-Cold War affect great power competition? Second, how should we see this competition reflected in international institutions like the WTO?

What does international relations theory tell us about these questions? Historically, due to the dominance of realist thought the distribution of power has been measured in material terms, i.e., the combination of military resources and economic wealth. Throughout the twentieth century, this has produced crude measurements of the "power" of the United States and its allies (NATO/the European Union) and the capabilities of the Soviet Union and its satellite states. Realism has led to predictions about the difficulties of cooperation among states, the irrelevance of domestic politics and the epiphenomenal nature of international institutions and international law.

However, with the end of the Cold War, the relative importance of realist concepts of security, survival and military power began to decline; the great powers all had nuclear arsenals, democracy was increasingly the preferred form of governance and globalization brought states together. Around the same time, the WTO came into existence and international trade, not naked security competition, became the prominent issue for some states in international politics. Perhaps controversially, the returns to power in the military sense have diminished while the returns to power on in the economic sense have increased.

In past years, the great powers were more similar than different. They were based in the Western world, linked by a common heritage, shared similar interests and, perhaps most importantly, had a common existential threat in the Soviet Union (or had strong security relationships in the case of Japan). Of course, there were differences among great powers at times but the United States, Great Britain, France, Germany, Japan were all developed nations with advanced economies and a large portion of the world's GDP. In other words, there was a greater confluence of interests on key trade issues across these great powers relative to the great powers of today (US, EU, Japan, China, India, Russia, etc).

Among the great powers of today, there is much more variation in their internal economic characteristics and governance structures. China is not a democracy and Russia is an immature one. China and India are, in many respects, developing nations with large economies today and the potential for enormous economies in the future due to their large populations. They also have potential allies in other developing countries in a way that the advanced Western great powers of yesteryear might not. Moreover, India has gained in strategic importance for the US such that its capacity to influence the U.S. is greater than what might appear at first glance.

This leads to the view that the US and EU will have problems with China, Russia and India, among others because the collective interests of the great powers are at a variance because of their levels of economic development and the size of their economies. So what does this mean for the WTO?

First, we should see great power competition to be increasingly focused on trade issues and, given the tentative claims here, we should see increasing gridlock in the WTO.

Second, for the US and EU, changing the rules to reflect the current distribution of power might mean sublimating their collective interests to China, India, Russia and their allies among the developing countries, making it less likely that modifying rules, by itself, can address the broader structural problems.

Third, it suggests that the extant version of the WTO—the single undertaking in 1994/95 before China and India had fully emerged—might be a high-water mark for US/EU-controlled free trade until the economies of the relevant great powers begin to look alike, making compromise on salient trade issues less costly and more plausible.

The implication is that the WTO will be a venue for great power competition and struggle to generate compromises on trade issues and that changing the institutional rules is unlikely to address the underlying structural problem or variation in internal characteristics among the great powers.

Posted by Daniel Abebe at 02:52:48 PM in [Abebe, Daniel](#)

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February 23, 2009

Future of the WTO-Relevance (Gregory Shaffer)

Thank you for your [opening post](#) Anu and for your [follow-up](#) Daniel. Let me add a few things. First, in assessing the Future of the WTO, the immediate question is the WTO's relevance in light of the financial crisis. You both note shifts in power constituting a new world order (the rise of the rest); yet for now, the WTO's relevance is limited more by a shifting attention to other matters-- namely getting ourselves out of the greatest global finance crisis that we have seen since the second world war, combined (for good measure) with the challenges of Afghanistan, Iraq and Al-Qaeda. The WTO is just not the player it was when it spurred the great global protests just a few years ago.

That of course does not mean that the WTO is irrelevant. The invocation by trading partners of its rules got the Obama administration immediately to amend its prize economic stimulus legislation. That shows it still has meaning. Thinking counterfactually, the WTO rules provided tools to domestic political actors to change the most important legislation before this country, tools that otherwise would not exist. We can thus better manage protectionist pressures than we could without the WTO.

As for the Doha Round, it looks pallid in light of the staggering financial crisis that confronts us. It could be that countries look for some symbol of cooperation and solidarity through finishing the Round; yet I question whether they will dedicate the requisite negotiating resources in light of everything else besetting them. Certainly the Obama administration needs to assess its stance on the Round, and clearly it has other items on its agenda of greater priority. In other words, the challenges right now to WTO negotiations are much more than a diffusion of power to the BRICS.

That means there is some time for reflection for the WTO regarding decision-making about which you and Daniel write. One idea is to replace consensus decision-making with what is called "critical mass" decision-making. Critical mass decision-making permits decisions to go forward where those members who are most affected by the issues can reach agreement and those relatively unaffected will not block it. We have seen this approach in the Information Technology Agreement, GATS and some NAMA sectoral negotiations. The Warwick Commission report of 2007 addresses it. To return to your point on power, critical mass decision-making will be driven by those who have markets that matter. Clearly the BRICS will be part of it.

As for the BRICS greater role, they have been building internal expertise and capacity to assume their place. And that is more difficult than many reckon (Anne-Marie Slaughter's point in her recent Foreign Affairs article on networking and US

advantages). You might be interested in a three-year study that I recently published with two Brazilians, Michelle Ratton Sanchez and Barbara Rosenberg, concerning Brazil's development of public-private partnerships on trade matters. It is entitled "The Trials of Winning at the WTO: What Lies Behind Brazil's Success" and can be found at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1137905. The WTO has spurred a competition for trade expertise within Brazil which, in turn, has affected Brazil's ability to engage the WTO.

Posted by gshaffer at 03:25:00 PM in [Guest Bloggers](#)

Comments

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Gosh. What a depressing salvo of opinions (I post this on Greg's watch, but his is actually the post I find least objectionable).

So, we are all Realists now? The WTO is dead, trade negotiations are do-or-die, everything is statist? Is this a Chicago thing? As intellectuals, should we focus on general political postures and half-hearted power politics, or on broader interests and constraints, or on even broader social dynamics? And normatively, what should we be preaching? These posts can all be interpreted as disinterested justifications of harmful mercantilism.

Things are much better than they seem. Despite the Hudecisms, no dispute has ever broken the GATT/WTO's back. And for good reason.

The reports of the WTO's death are greatly exaggerated; if it didn't exist it would have to be invented. I wouldn't mind if it were to be reinvented, but it certainly exists.

Just some jittery thoughts.

T.

Posted by: Tomer Broude | [February 24, 2009 at 01:34 AM](#)

This discussion is very relevant (pardon the pun!) and reminiscent of a very excited discussion we had at Princeton last week at the workshop "Global Trade Ethics and the Politics of WTO Reform" organized by Kalyso Nicolaidis and myself. I encourage you to look at the schedule and at the memos posted on the workshop's website:

<http://www.princeton.edu/~pcglobal/conferences/wtoreform/index.html>

In particular, look at my own memo "Is the WTO Still Relevant?" which led to a very animated discussion, as you can imagine!

Sophie Meunier

Posted by: [Sophie Meunier](#) | [February 24, 2009 at 08:42 AM](#)

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February 23, 2009

Future of the WTO (Richard Steinberg)

As a location for trade negotiation, the WTO is dead. A

The factors identified by Anu and Daniel-- raw economic diffusion and divergence of interests-- are important. Of the two, divergence of interests among powerful states (or blocs of states) is more important. Perhaps surprisingly, US and EU GDP (respectively) as a proportion of WTO GDP have not changed substantially in the last two decades; each has accounted for roughly 30-34% of WTO GDP, even with the "rise" of the BRICs. China has emerged, but it accounts for only about 6-8% of WTO GDP as of 2006, depending upon how you measure, and it has not been a demandeur at the WTO. Using the Goldman-Sachs data, projecting forward (and making some assumptions about Chinese and Indian growth that are more conservative than G-S), Chinese and Indian shares of WTO GDP will rise substantially so that by 2025 China may have 12-15% of WTO GDP and India, Brazil, and Russia may each have 5-8%. At that point, we can begin to talk about multipolarity. Until then, something else is going on.

The key developments in the last 14 years (since the EU and US engineered the conclusion of the Uruguay Round) have been (1) successful coalition behavior by developing countries and (2) the explosion of EU- and US-centered preferential trade agreements. Developing country coalitions have adhered better than ever before, partly in reaction to the end of non-reciprocity (Hudec's term for the preferences given to the developing world) that is the hallmark of the WTO (from a developing country perspective), and partly due to developing countries bundling together positions across a set of issues (a technique that has solved the "divide the dollar" problem they faced and that for decades allowed the US&EU to pry them apart). Participation by these coalitions has been institutionalized into the WTO negotiating process. Hence, we have moved from a hegemonic duopoly of the US&EU to a tripolarity in which developing countries have veto-power. As many developing country interests run orthogonal to those of the US&EU (as Daniel suggests), we have deadlock. New decision-making rules (such as those suggested by Greg) are hopeless in this context: neither the US nor the EU nor developing countries would agree to a rules that eliminate their veto-power. A

The explosion of preferential trade agreements (PTAs) is important not just because PTAs offer another opportunity for negotiation, one in which the EU or US may be more dominant than in the WTO and so more successful on their own terms. It is important because the MFN guarantees in the EU- and US-centered bilaterals make it impossible to replay the 1994 "power play" that concluded the Uruguay Round: the EU and US can no longer credibly threaten to deny MFN to

GATT/WTO members that do not go along with their wishes (as they did in 1994) by merely exiting the WTO and reconstituting a legally distinct "new" WTO; unlike 1994, the US and EU each owe MFN to many countries independent of the GATT Art I obligation by virtue of their MFN obligations in their free trade agreements. They would have to exit all trade agreements to replay the 1994 power play.

Note this does not make the WTO irrelevant. Negotiations may be dead but dispute settlement is very much alive and empowered. The same law and politics that are deadlocking the WTO negotiating process are deadlocking the WTO Members' ability to check behavior by the Appellate Body. Indeed, the WTO dispute settlement system may be crucial to fighting protectionism during the current downturn. 

Posted by Richard Steinberg at 04:53:00 PM in [Guest Bloggers](#)

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