

What can Developing Countries Achieve in the WTO?
A Book Review
of
Fatoumata Jawara and Aileen Kwa
Behind the Scenes at the WTO: the *real world* of international trade negotiations
by
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In the opening paragraph of **Behind the Scenes at the WTO: the *real world* of international trade negotiations**, the authors Fatoumata Jawara and Aileen Kwa offer a very telling account of what is to come:

“The remainder of this book recounts what happened before, during and after the Fourth WTO Ministerial Conference in Doha, Qatar, in November 2001. It tells how developing countries were bullied and coerced into acquiescing with an ‘agreement’ with which most of them profoundly *disagreed*. The process culminated in a Ministerial Conference which continued through the night and after its scheduled end (and the departure of some developing country delegations) until the developing countries were finally beaten into submission and the major powers got their way.” (P. xv).

Economists who pick up this book may not get past the first paragraph without pausing to wonder about both its meaning and its significance.

What does it mean to claim that developing countries were forced to agree to something with which they had profound disagreements? After all, like the General Agreement on Tariffs and Trade (GATT) before it, the WTO is a voluntary negotiating forum: at some level a decision to agree – for the major powers and the developing countries alike – must have reflected an assessment that the consequences of disagreement were worse than those of agreement. Individual countries may have hoped for more from the negotiations. But no country can be forced in the GATT/WTO to do anything that it would prefer not to do.

And if the authors’ claim amounts simply to the observation that developing countries did not get much from the Doha agreement, Why is it significant or surprising that developing country bargaining power is evidently low within the GATT/WTO?

As it turns out, in its own way the remainder of the book does articulate a fairly coherent and more subtle meaning to this opening paragraph, though not perhaps as directly and explicitly as many economists would like. In effect, the narrative provided by the authors tells the story of how, despite accounting for two-thirds of the WTO membership, developing country governments were unable to get their way in Doha and yet acquiesced when they were confronted with consequences of disagreement that were worse than those of agreement. Supporting this narrative are two underlying

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themes: the process which led to the draft agreement that was ultimately put before the WTO membership for approval in Doha was ‘undemocratic’ and tilted heavily in favor of the interests of the major developed countries; and the threats made by the developed countries which defined the consequences of disagreement for the developing countries would have been ‘off limits’ in a well-functioning rules-based system. Taken together, these two themes are used by the authors to suggest the book’s basic message, namely, that not only did the developing countries get a bad deal at Doha, but that they got a *really* bad deal (i.e., possibly worse than if they had never shown up at the bargaining table).

The significance of this message is clear at one level: the so-called Doha “Development” Agenda seems anything but that, and expectations that the WTO can deliver more significant benefits for its developing-country members will most likely end in disappointment. Many readers will probably be convinced of this much after reading the book (though whether they should be convinced of this is, I will argue below, not so clear).

Yet the deeper significance of this message is more clouded. The authors attach to this message a significance for the WTO which verges on the apocalyptic. In the book’s concluding section, the authors state:

“This prompts the question of whether the world needs a World Trade Organization, and if it does, what it should look like. The WTO’s supporters regularly respond to its critics that such an organization is needed, because the institutional framework provided by a ‘rules-based’ international institution at least puts the developing countries in a stronger position to challenge the developed countries than the anarchy of a ruleless system.

“In *theory*, this is plausible. The existence of the WTO *should* put some constraint on the ruthless pursuit of self-interest by the most powerful countries in the field of trade. In *practice*, however, the defence mechanisms that exist are largely inaccessible to, and ineffective in the hands of, most developing countries; and many aspects of the WTO merely provide the developed countries with new instruments to put pressure on developing countries in pursuit of their own commercial agendas.

... “In short, appealing as the idea of some kind of multilateral trade system might be in principle, it seems clear that the WTO as it currently operates does not constitute such a system. Far from setting fair trade rules to protect the interests of the weak, the WTO has been complicit in reinforcing the interests of the strong: Anarchy – the threat (real or supposed) used to justify the WTO – may be bad for the weak, but the tyranny of the strong may be worse.” (Pp. 302-304).

Evidently, the authors’ stated position derives from the following assertions/observations: (A) the WTO’s reason for existence is (or should be) to provide the world with a rules-based institutional framework that protects the interests of the weak within the context of trade bargaining; (B) the WTO does not appear to have been successful in delivering significant benefits of trade bargaining to the majority of developing countries, and so the WTO has failed to provide an effective rules-based institutional framework; (C) therefore, the world does not need the WTO (at least in anything like its current form).

While the book does not offer either theoretical arguments or data analysis in support of this position, economists should nevertheless take this position seriously, for a simple reason: the authors find substantial support for – and indeed arrive at – their position through interviews with numerous (mostly developing country) member-government WTO delegates as well as with WTO Secretariat

staff members. Hence, the authors' position or something approaching it is evidently embraced by important players in the WTO system, and on that basis alone deserves serious consideration from economists. At the same time, this position illustrates well why it is important for economists to offer a theoretically coherent and empirically grounded answer to the question "...of whether the world needs a World Trade Organization, and if it does, what it should look like." As I will argue below, the available theoretical arguments and empirical evidence relating to this question suggest that, while the position taken by the authors of this book is probably dangerously incomplete, it is not without some merit.

I. A brief description of the book and its bottom line

The book takes 10 chapters plus an Introduction to develop its thesis. The logic of the organizational structure of the chapters is not obvious (at least not to me), and I found moving backward and forward through time (both within and between chapters) to be somewhat distracting. I would have preferred a more linear development of the topics, but others may disagree.

The introductory chapter begins by describing – from the perspective of developing countries – the final hours of the Fifth WTO Ministerial Conference in Cancun, Mexico, in September 2003. The Cancun Ministerial was supposed to deliver a “midterm” declaration detailing the progress of and providing further direction for the on-going round of multilateral trade negotiations, but instead it ended dramatically and abruptly in disagreement. This chapter then steps back and identifies the immediate issues that led to the failure of the Cancun Ministerial, describes the process that generated these issues, and explains how this process worked to the disadvantage of developing countries on the issues they most cared about. Many of the themes that are developed further in later chapters are first illustrated here – the behind-the-scenes arm-twisting, the closed-door meetings, the manipulation of agenda-setting authority, the offering of and/or threatened withdrawal of special privileges, and the overwhelming resource advantage used by the developed countries to push through their agendas – and the introductory chapter serves as a vehicle for the authors to first state their basic position: “The WTO is an agent, not of multilateralism but of the USA and EC’s economic imperialist tendencies towards the developing world. In its current form, as a vehicle for corporate interests, its disempowerment would be a victory, not a loss, for the world’s poor.” (P. lxxii).

The subsequent 10 chapters elaborate on these themes by describing in a more detailed and systematic fashion the lead-up to the Fourth WTO Ministerial Conference in Doha, Qatar, in November 2001. The Doha Conference is particularly significant because it produced the agreement that provided the basic negotiating agenda and structure – what issues would be negotiated and how the negotiations would proceed – for the current (Doha) Round of multilateral trade negotiations in the WTO that is supposed to conclude at the end of 2006.

As background, Chapter 1 provides a (fairly cursory)¹ description of the WTO. Chapter 2 then describes the key issues in Doha from the developing country perspective. Chapter 3 describes the pre-Doha mini-Ministerial meetings, and how the major powers used these meetings to build coalitions for their preferred agendas. Chapter 4 gives a day-by-day account of the Doha Ministerial meeting itself, while Chapter 5 reflects on what the various delegates believed came out of Doha and why. Chapter 6 provides an account of the kind of arm-twisting that developed countries engaged in to achieve an agreement in Doha, including most notably offers to award or threats to remove preferential trade status for individual developing countries under the Generalized System of Preferences (GSP). Chapter 7 describes the perceived role of the WTO Secretariat in helping the developed countries push through their agendas. Chapter 8 reconnects with the Introductory chapter by arguing that, after Doha, it was “business as usual” leading up to Cancun. Chapter 9 describes the lack of substance behind the rhetoric of the Doha “development agenda.”

Chapter 10 summarizes the perceived problems with the WTO that have been described and documented in the previous chapters, and offers some suggestions for short-term reform. But the authors argue that real and lasting progress in reforming the WTO – if this is possible at all – will require a much more fundamental overhaul. In the concluding section of this chapter, they state:

“Developed countries are benefitting from the WTO, as are a handful of (mostly upper) middle-income countries. The rest, including the great majority of developing countries, are not. It is as simple as that.” (P. 269).
... “Some specific suggestions have been provided on how to democratize the WTO in the short term. In the longer term, much more fundamental changes are needed in the global economic system. Attempts to reform the WTO in recent years – particularly evident from post-Seattle and post-Doha experiences – have run aground. The underlying structural problem, developing countries’ economic dependency on the North, renders them extremely vulnerable to the power politics of the North; and the roots of this dependency lie very largely in the global economic system itself. The solution to this problem lies in part in allowing countries to determine the extent and terms of their integration or *non*-integration with the world economy, so that they can develop at their own pace and rhythm, and in their own direction.” (Pp. 304-305).

The book is well-written and in many ways impressively researched. And it presents a bottom line which most economists will find quite provocative: the world may well be better off without the WTO. Whether the book will ultimately succeed in convincing readers of its bottom line depends on how readers evaluate its two central claims: (Claim A) the WTO’s reason for existence is to provide the world with a rules-based institutional framework that protects the interests of the weak within the context of trade bargaining; and (Claim B) the WTO does not appear to have been

¹In particular, readers who rely on Chapter 1 as an introduction to the WTO would miss some subtle but important distinctions that, if not appreciated, can easily lead to confusion. A good illustration of the kind of subtle distinction that can make a difference is the authors’ claim that the US has the power within the WTO to veto the membership bid of another country, citing Iran’s bid for accession to the WTO as an example of this power (p. 5). This claim is not literally correct, as no country can veto with its single vote the accession of another country into the WTO. The rules for accession are clearly stated in Article XII of the Marrakesh Agreement establishing the WTO: a 2/3 majority vote by existing members is required to allow a new country to join. It is true that a country can ‘opt out’ of its relationship with a new member at the time of that member’s accession, but this does not prevent the new member from acceding and it does not appear to be what the authors have in mind. Rather, what the authors appear to be referring to is the reality that the US can *effectively* veto the accession of Iran to the WTO, because the US has the ability if pressed – through the kind of arm-twisting tactics described by the authors – to swing the necessary 1/3 of the WTO membership against Iran’s accession in any vote.

successful in delivering significant benefits of trade bargaining to the majority of developing countries, and so the WTO has failed to provide an effective rules-based institutional framework. If one accepts these claims, then the authors' bottom line follows.

How, then, should economists evaluate these claims? To my mind, it is difficult to make progress unless one first acknowledges that the WTO (and the GATT before it) is an international negotiating forum, and therefore that to evaluate these claims one must first *ask*, and then provide an answer to, the following questions: (i) What is the fundamental problem that is being addressed by international trade negotiations?; (ii) How would this problem be addressed in a well-functioning rules-based international institution?; (iii) How is this problem addressed in the GATT/WTO?; and finally (iv) How would this problem be addressed in the absence of an international institution such as the GATT/WTO? I think the book suffers from not presenting clearly the authors' stance on each of these questions. In the following sections, I describe answers to these questions that are implied by formal economic analysis of trade agreements, and evaluate the merits of the authors' central claims in light of these answers.

II. *What problem is the GATT/WTO attempting to solve?*

It seems difficult to assess whether the world might be better off without the WTO and the international trade agreements that are negotiated and administered under its auspices unless one first answers the question, What is the fundamental problem that is being addressed by international trade negotiations? Only with an answer to this question can one proceed to evaluate the performance of the WTO, and then begin to assess whether the world might be better off without it.

There are a number of possible answers to this question, but economists who study multilateral trade negotiations typically start from the perspective that there is an international inefficiency that gives rise to the possibility of Pareto improving negotiations among governments, that is, the possibility of a negotiated agreement that would correct this inefficiency and thereby allow the government of each country to better achieve its objectives than would be possible absent an agreement. In each of these models, no matter what the underlying objectives of each government are taken to be, the fundamental problem that is being addressed by international trade negotiations is the same: it can be described formally as the terms-of-trade driven Prisoners' Dilemma that arises when governments can shift a portion of the cost of their trade protection on to foreign trading partners by depressing foreign exporter prices, thereby improving their own terms of trade (see Bagwell and Staiger, 1999, 2002 for discussion). The terms-of-trade driven Prisoners' Dilemma gives rise to an international inefficiency in which there is simply too much trade protection and too little "market access" in the world, because the cost of protection borne by foreign exporters is not "counted" in each government's unilateral trade policy choices.²

²This perspective accounts well for the market access emphasis that defined GATT and that dominates as well the WTO, but there is one agreement within the WTO that concerns an issue that is fundamentally distinct from market access, namely, the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs). As the authors correctly point out (p. 37), whether TRIPs belongs in the WTO is a matter of contention among economists. Because my emphasis lies elsewhere, I effectively leave TRIPs out of the discussion of the next several sections, and return to it only briefly and indirectly in the concluding section.

Beginning from the inefficient trade policy choices made in the presence of this international cost-shifting, the purpose of international trade negotiations is then clear: to provide an avenue by which foreign exporters can have their interests represented in the trade protection choices of the national governments to whose markets these exporters seek access, and thereby to face those governments with internationally appropriate incentives that lead them to choose internationally efficient levels of trade protection. Typically, this representation does not take the form of exchanges of money for market access (though in principle it is not obvious why it couldn't), but rather takes the form of exchanges of market access for market access, in which a domestic government whose exporters seek access to a foreign market offers the foreign government access to its own domestic markets in exchange, which foreign exporters presumably value. If the two governments can find such a reciprocal exchange of market access which they both prefer to the alternative of no deal, and so long as no 3rd parties are affected by the deal, then the negotiation has resulted in a Pareto improvement with regard to the objectives of the governments of every country (some governments strictly benefit from the bargain, while no government is hurt).

What you get is what you give

If this perspective on the problem being solved by trade agreements is correct, then it implies a somewhat ironic and counter-intuitive feature of international trade negotiations, namely, that a central component of the benefit that each government typically achieves through these negotiations is associated with that government's *own* commitments to more liberal trade policies.³ This is because, according to this perspective, governments in effect use the reciprocal negotiations to eliminate the inefficiencies that were introduced into their own trade policy choices in pursuit of terms-of-trade advantages, but without suffering the terms-of-trade deterioration that would be associated with a unilateral attempt to do so. This implication is ironic, because the same conclusion is often associated with a free-trade ideology, yet the perspective I have described above nowhere imposes this ideology on the governments involved in the negotiations (i.e., any or all of these governments could view trade protection as a useful and important policy option for pursuing their objectives). Hence, the commonly held view (expressed as well by the authors on pp. 301-302) that the economist's case for trade agreements is only as strong as the case for free trade – and therefore that the foundation of the GATT/WTO necessarily rests upon free-trade ideology – is simply incorrect. And this implication is counter-intuitive, for two reasons. First, while each government ultimately gains from its own commitments to more liberal trade policies, each government *needs* negotiations with other governments to achieve these gains (i.e., it would not be in any government's self-interest to adopt these more liberal trade policies unilaterally, owing to the consequent terms-of-trade effects). And second, while exporter interests take center stage in determining the extent of negotiated liberalization, this does not mean that negotiation necessarily leads to free trade for any country: whether it does or does not will depend on the government's own objectives, much as in the authors' own description (pp. 304-305) of the global economic system they would like to see (as quoted in the previous section).

³The main alternative perspective in the economics literature on the purpose of trade agreements, namely, that these agreements correct a domestic rather than an international inefficiency by providing governments with a commitment mechanism with regard to their own private sectors, implies an analogous feature but for fundamentally different reasons (Bagwell and Staiger, 2002, Chapter 2, contains a broader discussion).

This perspective immediately raises an important possibility: the problem that international trade negotiations exist to address may in fact *not* be a problem that the majority of WTO developing-country members face, and therefore by implication a central component of the benefit of trade negotiations may not be available to these countries. This is because, as explained above, the problem arises only if a country is large enough in international markets to alter the prices of foreign exporters with its trade policy choices, and a central component of the benefit that it can then achieve through international trade negotiations is associated with its own commitments to more liberal trade policies. But many of the smaller developing country members of the WTO may not possess this power to any significant degree in most of the markets in which they operate. For these countries, an international trade negotiation may simply have little to offer in the way of the kind of efficiency gains that the larger countries can achieve, because the governments of these small countries are already (unilaterally) making trade policy choices that, while potentially very trade-restrictive, are nevertheless efficient from an international perspective, since their choices can't possibly be motivated by international cost-shifting.⁴

The fact that the majority of WTO developing country members may not be part of the “problem” that the WTO exists to solve does not of course by itself imply that they have nothing to gain from WTO negotiations: drawing that conclusion would be a bit like concluding that those who don't own guns have nothing to gain from gun control. But as I next argue, these observations have important implications for assessing the extent to which the negotiating outcomes under the GATT/WTO are inconsistent with the outcomes that would be delivered under a well-functioning rules based system.

III. *Does the GATT/WTO offer a ‘rules-based’ solution to this problem?*

Assuming that the problem to be solved by a trade agreement is that of international cost-shifting, How would this problem be addressed in a well-functioning rules-based international institution? This of course depends on what one means by ‘rules-based,’ but for purposes of argument I follow Bagwell and Staiger (2002, pp. 36-39) and adopt the view that an idealized rules-based negotiating forum would deliver a negotiated outcome that is efficient and does not reflect the relative power positions of the various countries. The “politically optimal” policies associated with this negotiated outcome turn out to be exactly the policies that each government would have chosen on its own (i.e., unilaterally) had it “ignored” the ability to alter foreign exporter prices and engage in international cost shifting (i.e., had it acted from the start as if it were a “small” country). If the power to alter foreign exporter prices is distributed symmetrically across countries, then the rules-based political optimum corresponds to the “power-based” Nash bargaining solution. But if some countries have more power over foreign exporter prices than others, then the Nash bargaining solution favors these more powerful countries relative to what they would achieve at the political optimum. In this way, the political optimum can be seen to correspond to a rules-based outcome that, unlike the power-based Nash bargaining solution, does not reflect the relative power position

⁴To be clear, I am not claiming that the majority of developing country WTO members are necessarily small in this sense, only that it is possible that they are. Indeed, I will later observe that the relevant empirical evidence on this question is not yet available.

of countries.⁵

The authors claim that the GATT/WTO has failed to serve as a well-functioning rules-based institution, and they support this claim by arguing that both the negotiated outcomes and the process that led to these outcomes are inconsistent with a rules-based system. I therefore first consider whether the outcomes delivered in an idealized rules-based system of the sort described just above are necessarily inconsistent with the observed outcomes under the GATT/WTO, and then turn to evaluate the process issues raised by the authors.

The outcomes of negotiation: What should small countries accomplish?

How would the benefits of international trade negotiations be distributed across countries if those negotiations took place in an idealized rules-based international institution whose purpose is to help governments escape from a terms-of-trade driven Prisoners' Dilemma? To answer this question, observe that the benefits enjoyed by each government in moving from a non-cooperative (Nash) setting to the rules-based political optimum can be decomposed into the sum of its two component parts: first, the effects on the government of the terms-of-trade changes that are implied by the rules-based negotiating outcome, where these effects are evaluated under the hypothetical assumption that the government were allowed to remain free to set its policies unilaterally as it wishes; and then second, fixing the terms of trade at the level implied by the negotiations, the effects on the government of being constrained to its politically optimal policies. It can be shown (see Bagwell and Staiger, 1999) that: (i) the first part is positive, zero or negative for a government as the negotiations imply for that country, respectively, an improvement, no change or a worsening of its terms of trade; and (ii) the second part is positive for a government that would not unilaterally set its policies in a politically optimal fashion (i.e., for any country with some ability to alter foreign exporter prices) and is zero otherwise (i.e., for "small" countries with no ability to alter foreign exporter prices with their trade policy choices). Putting (i) and (ii) together, the key point is then the following: in the presence of an idealized rules-based international institution, the *sign and magnitude* of the impact of international trade negotiations on the objectives of small-country governments depends entirely on the sign and magnitude of the terms-of-trade movements implied by the negotiations.

With this characterization of the bargaining outcomes generated in an idealized rules-based system that solves the terms-of-trade driven Prisoners' Dilemma problem, I now have a useful benchmark against which to evaluate the performance of the GATT/WTO. That is, if the GATT/WTO is interpreted as an international institution whose purpose is to help governments escape from a terms-of-trade driven Prisoners' Dilemma, how close does it come to approximating the 'rules-based' solution to this problem described just above? As indicated earlier, the authors

⁵There is an important question of whether it would be feasible to implement the politically optimal policies. For example, if all governments seek to maximize national income with their tariff choices, then the politically optimal policy for each government is free trade. But as Johnson (1953-54) pointed out, sufficient asymmetries across countries relative to their power over the terms of trade could lead a powerful country to prefer the non-cooperative Nash equilibrium to free trade, and so sufficient power asymmetries can prevent the possibility of implementing the political optimum. In the discussion that follows I ignore this question, because it is not central to the point I wish to make here. I do later discuss the question of why powerful countries might support a rules-based system even though it would not seem to be in their immediate interests to do so.

argue that the gains generated by negotiations within the WTO are shared by developed countries and a few upper-middle income developing countries, while the great majority of developing countries appear to get nothing, and the authors infer from this seemingly one-sided distribution of gains that the WTO is not operating as a rules-based institution. But using the benchmark described just above, I now argue that this inference is not self-evident, and could potentially be very misleading.

To see this, recall that, as explained above, in the presence of an idealized rules-based international institution, the sign and magnitude of the impact of international trade negotiations on the objectives of small-country governments depends entirely on the sign and magnitude of the terms-of-trade movements implied by the negotiations. Consider, then, a particular case in which the terms of trade in the non-cooperative (Nash) environment that prevails in the absence of trade bargaining happens to be the same as the terms of trade that would prevail when all governments eschew international cost-shifting motives and adopt their internationally efficient politically optimal trade policies. In this case, small countries should gain *nothing* from trade bargaining in the presence of an idealized rules-based international institution. Intuitively, small countries are never asked to make policy commitments in the rules-based bargaining outcome, but in the particular case under consideration neither does the rules-based bargaining outcome alter the terms of trade, and so from the perspective of each small country nothing has changed as a result of the (rules-based) trade negotiations.⁶ Whether or not this particular case will in fact arise can be shown to depend on whether or not the ability of individual countries to alter foreign exporter prices with their trade policy choices is symmetrically distributed across *goods* (not countries). More generally, as long as any terms-of-trade movements implied by the rules-based negotiations are “small” relative to the magnitude of the overall liberalization, which is to say as long as liberalization is broadly *reciprocal* across the bigger countries, this finding will continue to be approximated by the bargaining outcomes in an idealized rules-based international institution.

The important point is that, evidently, a finding that... “[d]eveloped countries are benefitting from the WTO, as are a handful of (mostly upper) middle-income countries...[t]he rest, including the great majority of developing countries, are not...” is not by itself grounds for concluding that the GATT/WTO fails to operate as a rules-based international institution. Instead, it is at least possible to entertain an alternative interpretation, namely, that this finding reflects the workings of a rules-based international institution that is designed to solve a problem that the majority of developing countries simply are not afflicted with.

In fact, there is empirical evidence that lends some support to this alternative interpretation. I refer here to the findings reported in Subramanian and Wei (2003), indicating that membership in the GATT/WTO appears to have large positive and significant trade volume effects for developed

⁶It is worth emphasizing that the implication of this case when applied in the context of the WTO is that small countries would gain nothing from WTO *negotiations*, not that small countries would gain nothing from WTO *membership*. The distinction arises because WTO membership entitles a country to MFN treatment from other WTO members. Without the benefit of MFN treatment, a small non-member country would in this case be *hurt* by WTO negotiations, because these negotiations would worsen its terms of trade.

countries but little if any systematic effect on the trade volumes of developing-country GATT/WTO members. To see more clearly the potential link between this empirical finding and the alternative interpretation described above, it is useful to recall in more detail the two component parts of the benefit of rules-based trade negotiations enjoyed by each government: the effects on the government of the terms-of-trade changes that are implied by the rules-based negotiations, under the hypothetical assumption that the government were allowed to remain free to set its policies unilaterally as it wishes; and then, fixing the terms of trade at the level implied by the negotiations, the effects on the government of being constrained to its politically optimal policies. The first of these effects (the terms-of-trade effect) has no clear trade volume implications associated with it, since for fixed trade balance it has implications only for the volume of a country's exports *relative* to its imports. The second of these effects necessarily implies trade volume increases, for both imports and exports, but in a rules-based negotiation this benefit is only enjoyed by those countries large enough to alter foreign exporter prices with their trade policy choices. Hence, the broad findings of Subramanian and Wei described just above are consistent with the trade effects that would be produced by the outcome of a rules-based trade negotiation in which developed countries were "large" in world markets and the majority of developing countries were not.

What is *not* consistent with this alternative interpretation, however, is the apparent force with which developing countries are being urged by the developed-country governments to take on policy commitments within the WTO. Here I think the authors miss an important point when they draw parallels at various places in the book between GATT and the WTO (and between the Bretton Woods Conference that led to the creation of GATT and the WTO Ministerial Conference in Doha) and argue that little has changed across these two institutions. The point is, developed country governments asked very little from developing country governments within GATT, while within the WTO developed country governments are increasingly demanding far more from developing country governments in terms of policy commitments.

The distinct treatment of developing countries across the GATT and the WTO raises a crucial question: What explains the difference? Do these new demands on developing country governments reflect the efficient response of a rules-based system to the new status of developing countries as increasingly prominent players in the global economy and the implied ability of these governments to now engage in inefficient international cost-shifting? Or did developing countries always have this ability, and do these new demands reflect perhaps a collective judgement by the membership of the WTO that the GATT-era attempts to help developing countries by granting them exceptions to the rules of the rules-based system (as institutionalized in the various "special and differential treatment" provisions of the GATT) were in fact misguided? Or rather do most developing countries still lack the ability to engage in inefficient international cost-shifting, but these new demands reflect the evolution of the international trading system from a rules-based system under GATT to a more "power-based" system under the WTO?

If one accepts the perspective that the purpose of international trade agreements is to help governments escape from a terms-of-trade driven Prisoners' Dilemma, then these are key, and perhaps *the* key, questions for developing countries in the current (and any future) round, because

the answers to these questions will determine whether developing countries should embrace or possibly resist their new place at the bargaining table. And by implication, how these questions are answered sheds light as well on the validity of the authors' Claim B, namely, the claim that the WTO has failed to provide the world with an effective rules-based institutional framework.

The critical pieces of empirical evidence on which the answers to these questions hinge are clear enough, namely, the past and present degree to which developing countries are large enough in relevant markets to alter international prices with their trade policy choices. Theory does not offer much help here, except to indicate that casual empiricism can be very misleading: as Gros (1987) observed, in a world of differentiated products, it is possible that even "tiny" countries have the power to alter their terms of trade. Moreover, it is probably unreasonable to expect anything close to a single characterization for developing countries as a group: Brazil is not Malawi. Unfortunately, the needed empirical evidence is not yet available in any systematic fashion. And until this evidence becomes available, I think the jury must remain out on the validity of the authors' Claim B.

The process of negotiations: What threats should be 'off-limits'?

Still, there is one theme that the authors stress regarding the process of negotiations in the WTO that is particularly troubling for interpreting the GATT/WTO as a well-functioning rules-based institution, no matter which way the empirical evidence on the above questions eventually point. I refer here to the authors' description of the frequency with which the US and the EU linked (continued or new) GSP trade preferences – and possibly even "aid" payments – to developing country support for agenda items in the Doha Round that were favorable to US and EU interests. To explain why this practice, which in itself is not particularly surprising, could nevertheless be especially pernicious from the perspective of a well-functioning rules-based system, I need to digress slightly to consider in more detail the peculiar nature of the tradeoffs that arise in setting the agenda for a multilateral trade negotiation.

As mentioned, the task of the Doha Conference was to produce a document that would set the agenda for the next round of multilateral trade negotiations. In principle, the list of potential negotiating issues could include any outstanding trade- or trade-related policy issue where an international inefficiency associated with unilateral government choices can be identified, since it is the existence of an international inefficiency that gives rise to the possibility of mutually beneficial negotiations between governments.⁷ Given the complexity of each of the issues that are typically addressed in GATT/WTO negotiations, it is clear that not all trade-related sources of international inefficiency can be addressed in any one round. So the question is, Which of the outstanding trade-related sources of international inefficiency should be addressed in the current round of negotiations, and which are better left to future rounds?

A key feature in understanding the tradeoffs that must be considered by governments in answering this question is appreciating the status of government-to-government monetary transfers

⁷Here I continue to adopt the perspective that the purpose of the trade negotiations is to correct international (as opposed to domestic) inefficiencies.

in international trade negotiations. If making monetary transfers in exchange for negotiated trade concessions were generally feasible for governments, then setting the agenda for a multilateral trade negotiation would be a relatively simple task: rank the potential negotiating issues in descending order of the potential negotiating surplus (net of negotiating costs), and then choose the feasible number of issues from the top of the list, thereby achieving the maximum potential net negotiating surplus for the current round.

Importantly, if general monetary transfers of this kind were feasible, there would be no need to ensure any kind of “balance” of the negotiating agenda: that is, each government could simply offer to make cash payments to other governments for the policy concessions of theirs that it valued, and as a consequence there would be no need to select issues so that each country would be able to “pay” for the policy concessions that it valued by offering to those governments policy concessions of its own which they valued. The implication in the present context is then that there would be no reason to seek a negotiating agenda that balanced, say, “developed country interests” (those issues where developing countries would make most of the policy concessions and developed countries stand to gain the most) against “developing country interests” (those issues where developed countries would make most of the policy concessions and developing countries stand to gain the most), because an unbalanced negotiating agenda would simply imply net cash payments flowing from one “side” to the other, and otherwise be of no real consequence.

But if government-to-government monetary transfers are for some reason infeasible in the context of international trade negotiations, then achieving the kind of balance in the negotiating agenda described just above becomes crucial for the outcome of negotiations. In particular, without care to set up the agenda for the negotiating round to achieve this balance, governments could easily find themselves in a situation where no deal could be struck, because one government wanted policy concessions from another government over issues covered in the round but could find no policy concessions of its own across these issues that the other government would value, and so had nothing to offer in return within the round.

For reasons that are not entirely clear, government-to-government monetary transfers in the context of international trade negotiations are essentially non-existent, and so the kind of balance issues discussed above are crucial in setting the agenda for a round of multilateral trade negotiations. These balance issues were at stake in the Doha Conference. If many developing-country governments felt at the end of the day that there was little on the negotiating agenda in the way of possible policy concessions from other governments that they valued and could realistically hope to secure through negotiation, then these governments could expect little in the way of benefits from any final negotiated deal. Moreover, if the negotiating agenda included many issues where other governments valued policy concessions from these developing country governments, then just how badly these governments could expect to do in the final negotiated deal would depend on what threats could be made credible to induce them to accept policy concessions, and therefore how costly disagreement for these governments could become.

It is from this backdrop that the apparently wide-spread US and EU practice of making GSP

trade preferences and/or aid packages to developing countries conditional on those countries' support for particular agenda items in the Doha Round can be understood to be especially troubling for an institution that is supposed to be rules-based. More specifically, it is not so much the fact stressed by the authors – that “developing country issues” failed to make it on to the Doha Agenda – that is troubling for a rules-based institution, since as observed above this unbalanced agenda could in principle simply have reflected the feasibility of government-to-government monetary transfers and nothing more. Rather, what is troubling for a rules-based institution is the form in which “payments” were made to the developing countries to induce them to go along with this unbalanced agenda.

In particular, GSP was conceived in the GATT/WTO, not as a bargaining chip, but as a way for developed countries to provide unilateral and (in effect) discriminatory grants of special market access privileges to developing countries for purposes of aiding their development. Hence, in choosing to use GSP – and in an analogous way development aid packages – as bargaining chips in the Doha Round, the US and EU in effect converted into *conditional* and *reciprocal* actions what were originally conceived as *unilateral* grants of trade privileges and/or aid packages.⁸

Arguably, it is this conversion more than anything else that could potentially place developing countries in the position suggested by the authors, namely, that the outcome of the Doha Round may have left them worse off than if they had never shown up at the bargaining table. And in this way, it could be argued that the US and the EU used threats in the bargaining leading up to Doha that should have been ‘off limits’ in a well-functioning rules based institution, since with these actions they altered the consequences of developing-country disagreement in ways that seem fundamentally inconsistent with the spirit and intent of a rules-based system (see, for example, the discussion in Jackson, 1997, pp. 109-111).

Hence, regardless of the way in which the empirical evidence relevant to judging the outcomes of the Doha Round eventually points, I think the authors have identified a negotiating practice which, if widespread and systematic as the authors argue it is, seriously challenges the claim that the WTO is operating as a well-functioning rules-based institution. As a consequence, I think this process issue raised by the authors offers significant (though not by itself conclusive) support for the authors' Claim B.

IV. Why (else) do we need a GATT/WTO?

I now consider a final question: assuming that the problem to be addressed by a trade agreement is that of international cost-shifting, How would this problem be addressed in the absence of an international institution such as the GATT/WTO? Put differently, What role does the WTO as an institution play in aiding governments in their attempt to escape from the terms-of-trade driven Prisoners' Dilemma? Assuming that the problem to be addressed by a trade agreement is that of international cost-shifting, this is the question that must be answered if one is to evaluate the authors' Claim A, namely, that the WTO's reason for existence is to provide the world with a rules-based

⁸See Grossman and Sykes (forthcoming) for a broader examination of the challenges faced by the WTO in adopting the appropriate stance on GSP schemes.

institutional framework that protects the interests of the weak within the context of trade bargaining.

One possible answer to this question is that the WTO really makes no difference whatsoever: if the international inefficiencies associated with international cost-shifting are significant, then governments will find ways to address these inefficiencies and reap the implied benefits, regardless of whether or not the WTO (or the GATT before it) exists. Under this interpretation the GATT/WTO serves simply to codify the way in which governments address the terms-of-trade driven Prisoners' Dilemma problem, but the existence of the GATT/WTO does not alter their solution to this problem. Arguing against this interpretation are the many international conferences of the inter-war years, consisting largely of expressions of free-trade ideals by the governments involved, which invariably failed to produce meaningful results (see, for example, Hudec, 1990, pp. 3-45). The creation of GATT in 1947 marked a fundamental divergence from these earlier efforts, in that for the first time governments put forward elements of a multilateral negotiating forum in which market access rights and obligations could be exchanged. The birth of the WTO can then be seen as an attempt by governments to improve upon the negotiating forum shaped by GATT and to extend this negotiating forum to a variety of new issues.

What features, then, are contained in the negotiating forum created by the GATT/WTO that could not have existed without this institution? The authors raise one possibility: the GATT/WTO might provide governments with a means to commit to a 'rules-based' framework that could protect the interests of the weak within the context of trade bargaining. Apart from whether or not the GATT/WTO actually serves this role, a question that arises here is why governments – and in particular the more powerful governments – would value an institution that redistributed bargaining power in this way? One possible answer is that commitment to a rules-based framework was perceived as having an effect on the efficiency of bargaining outcomes within the GATT/WTO, not just on the distribution of those benefits across members, because only with such a commitment would weaker governments see it in their interest to make the investments necessary to participate. In this way, it is possible that all governments – even the powerful – could expect benefits from making this commitment, because without such a commitment it would prove impossible to induce full participation in the negotiating forum (see Bagwell and Staiger, 1999).⁹

So it seems plausible, as the authors argue, that an important potential role for the GATT/WTO is to provide its member governments with an institutional commitment to a rules-based negotiating environment. It seems less plausible, however, to claim that this is the *only* role that can potentially be played by the GATT/WTO, and therefore that if the WTO is found to be ineffective at this role, then the WTO has no reason to exist and the world is better off without it. This position seems to ignore at least two additional and potentially significant roles that the GATT/WTO can/does serve.

⁹A remaining question is what features of the GATT/WTO bargaining environment could serve the role of protecting the interests of the weak. It is often observed that the GATT/WTO most-favored-nation (MFN) rule may protect the weak. In the formal analysis of Bagwell and Staiger (1999), it is the particular form of the GATT/WTO renegotiation provisions that plays this role.

A first potential role of the GATT/WTO that the authors seem to ignore is that of facilitating the enforcement of negotiated agreements. This role has been emphasized by Maggi (1999), who argues that a multilateral retaliation mechanism can allow governments to enforce more efficient trade agreements when there are power imbalances in bilateral relationships, and that a multilateral institution such as the GATT/WTO may be necessary to coordinate these multilateral punishments. Notably, the GATT/WTO has a long history of attempts led by developing countries to strengthen the multilateral dimensions of retaliation. Hudec (2000) describes a 1965 proposal put forward by developing countries in the Kennedy Round of GATT negotiations that would have allowed for “collective retaliation” in cases where a large country violated its obligations to a developing country. Mexico (WTO, 2002) has put forward a set of proposals in the Doha Round to reform the WTO system of remedies, and among these is a proposal to allow an authorized right of retaliation to be tradeable among WTO member governments.¹⁰ In each case, the broad intent of the proposal is the same: to enhance the ability of the GATT/WTO to coordinate multilateral retaliation in the event of violations to the agreement when there are power imbalances in bilateral relationships. The Mexican proposal, if adopted, would introduce multilateral elements into retaliation in a form that is more explicit than has existed to date in the GATT/WTO. Still, as Maggi argues, more subtle forms of multilateral retaliation are likely to occur in the GATT/WTO, and may be an important source of enforcement power that would be unavailable outside this multilateral institution.

A second potential role of the GATT/WTO that the authors seem to ignore is that it may serve to provide an environment of reasonably stable and secure property rights over negotiated market access claims, thereby facilitating the negotiation of efficient agreements. The point can be appreciated with the aid of a simple example. When the exporters of country A seek access to the markets of country B, a commitment by B’s government to reduce its tariff level does not by itself provide A’s exporters with a secure right of access to B’s markets, because B could subsequently alter other internal policies in a way that favored B’s domestic producers over A’s exporters in B’s markets, or B might negotiate further tariff commitments with a third country C which gave C’s exporters a competitive advantage over A’s exporters in B’s markets. Understanding this, A’s exporters are unlikely to value a tariff commitment from B’s government, and meaningful bargains are unlikely to be struck, without further assurances that the implied market access won’t subsequently be undercut. An effective negotiating forum for market access must therefore solve this problem. One possible solution would be to have all governments bargain multilaterally with all other governments over all policy instruments. This could of course become extremely complex. An alternative is to maintain the emphasis on tariff commitments negotiated bilaterally or among subsets of countries but to adopt a set of negotiating rules and norms which together ensure that a tariff commitment implies a level of market access which cannot easily be undercut by permissible changes in internal measures or subsequent negotiations with 3rd parties. As it turns out, one can interpret a number of the central rules and norms of the GATT/WTO – such as its MFN rule, its reciprocity norm, and its renegotiation and ‘non-violation’ nullification-or-impairment provisions – as providing this kind of assurance (see Schwartz and Sykes, 1997, and Bagwell and Staiger, 2001,

¹⁰Bagwell, Mavroidis and Staiger (2004) interpret this element of the Mexican proposal as a proposal to permit auctions of WTO retaliation rights, and analyze the performance of auctions with various design features in this setting.

2004, 2005), and in this way identify a second potential role for the GATT/WTO.

In light of each of these additional and potentially important roles that the GATT/WTO can/does play, I think the authors' Claim A reflects an overly narrow perspective. As a consequence, even if, with the availability of further empirical evidence, the authors' Claim B turns out to be correct, I do not find compelling the apocalyptic interpretation of their message that the WTO is then revealed to be valueless as an international institution.

V. *(Re)Interpreting the Message*

This book delivers an important message: despite amounting to two-thirds of its membership, the great majority of developing country governments believe that they have gotten nothing out of the WTO's Doha "Development" Agenda, and there is even a fear among developing country governments that they may end up worse off at the conclusion of the Doha Round than if they had never shown up at the bargaining table. The question is, How does one interpret this message? The authors offer their own interpretation: the GATT/WTO has failed as a rules-based international institution, and the world may well be better off without it. In the preceding sections, I have developed a possible alternative interpretation, based on available theoretical arguments and empirical evidence. I conclude by summarizing the three main implications of this alternative interpretation for the role of developing countries within the WTO.

Don't expect too much

First, it is possible that the ability of the WTO to deliver significant benefits for most of its developing country members is severely limited. Put simply, this possibility can arise if the problem that the GATT/WTO exists to solve is a large country problem, and if most of the developing country members of the WTO are small in international markets. When this is the case, it is possible that even an idealized rules-based world trading system would offer little to most of the WTO's developing country members. In this case, the exemption from policy commitments that developing country members were granted in the GATT era can be seen in effect as a form of 'benign neglect' granted to them by the developed country GATT members, and in this case the majority of developing country WTO members face a two-edged sword: they should resist attempts by the developed countries to get them to offer negotiated policy concessions of their own, but neither should they expect much out of the WTO. In this case, the role of small developing countries as WTO members is essentially to prevent the bigger countries from discriminating against them as these bigger countries use the WTO to find solutions to their problems.

Don't expect too little

Second, it is also possible that the WTO has the potential to usher in a new era in which the majority of developing countries stand to gain significantly from multilateral trade negotiations. This possibility can arise when the problem that the GATT/WTO exists to solve is a large country problem, so long as the majority of developing country WTO members are large in the relevant international (or regional) markets. In this case the 'neglect' with which developing countries were treated in the GATT era is no longer 'benign' (if it ever was), and developing countries can achieve significant gains within the WTO in the same way that these gains are achieved by developed

countries, namely, through active negotiation and the granting of reciprocal policy concessions (by for example, offering market access concessions in industrial products or services in exchange for concessions in agriculture).

An ominous possibility

And third, it is possible that the evolution from GATT to the WTO marks a transformation from a largely rules-based system to a more power-based institution. In this case, the enhanced institutional strength of the WTO relative to the GATT can be seen as providing the developed countries with an opportunity to extract policy concessions from the developing countries that would not be consistent with a rules-based institution. Even in this case, it is possible that developing countries stand to gain more from a stronger power-based system than they received from a largely ineffective rules-based system, because of the greater ability that the WTO affords its member governments to correct their international inefficiencies. That is, if significant international policy inefficiencies remain from the GATT era in the developed-country markets that are of most interest to developing countries (e.g., agriculture), then developing countries may still gain something in the WTO relative to the GATT era by negotiating exchanges of policy concessions (e.g., services and TRIPs) so as to lower the remaining developed-country barriers. But there is also a more ominous possibility, namely, that the main impact of the enhanced institutional strength of the WTO is not to better correct international policy inefficiencies, but simply to allow developed countries to better extract policy concessions from developing countries.

According to the alternative interpretation of the authors' message which I have described in the preceding sections, then, the path of developing countries in the world trading system and their role in the WTO is at a crossroads fraught with difficult choices. But the issues are, at least in principle, quite clear. Avoiding the traps of expecting either too much or too little from the WTO regarding what it can do for the majority of its developing country members hinges on empirical evidence concerning the ability of these countries to alter international prices with their trade policy choices. And as the WTO grapples with a broader and potentially expanding set of concerns ranging from intellectual property to services to investment and competition policy, the best hope of avoiding the most ominous possibilities of an enhanced 'power-based' WTO may lie in ensuring that the WTO remains (or returns to) an institution focused on the correction of well-defined international trade- and trade-related- policy inefficiencies. According to the interpretation I have outlined above, these are the key issues whose resolutions will determine whether or not the Doha Development Round lives up to its name.

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