The WTO and the Global Economy

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1. Introduction

The ongoing integration of the world economy ("globalisation") and the World Trade Organisation as it approaches its third birthday, are the subject of a great deal of discussion and press coverage. This article focuses on an assessment of the WTO in the context of the evolving global economy. Section 2 reviews recent developments pertaining to the WTO. Several challenges facing the WTO, now and on the horizon, are briefly reviewed in Section 3. The WTO’s ability to deal with these challenges is examined in Section 4. The discussion shifts, in Section 5, to a brief consideration of findings regarding the importance of institutions to national economic development, and of their implications for the role of the WTO in global economic development.

2. World Trade Organization

The current “state” of the WTO can only be described as “very good”. Implementation of the Uruguay Round results has progressed largely on schedule. Two major post-Uruguay Round liberalisation agreements have been signed – the Basic Telecoms Agreement and the Singapore Ministerial Declaration on Trade in Information Technology Products (ITA). The negotiations on financial services have received a new lease on life and may be concluded in the near future.

By all counts, the new dispute settlement procedures are working very well, both in encouraging countries to resolve disputes before they reach the panel stage, and in demonstrating a capacity to overturn policies even in sensitive areas. WTO membership in April 1997 reached 131 (up 40 per cent from 93 when the Uruguay Round was launched in 1986), and 28 working parties have been established to consider applications for membership, including from China, the Russian Federation, Chinese Taipei, Vietnam and Saudi Arabia.

The “single undertaking” nature of the WTO – in contrast to the GATT, every WTO member must submit schedules of tariff “concessions” and services commitments, and with only very limited exceptions (mainly for the least-developed countries) every member accepts in its entirety a common set of rules and disciplines covering goods, services and intellectual property - together with the accession of a number of middle- and lower-income developing countries, has led to a very active WTO programme of technical assistance. These and many other activities are detailed in WTO (1996, ch. V).

The WTO’s first two years were capped by three major successes. The Basic telecoms Agreement and the ITA Agreement have already been mentioned. The third is the aforementioned Ministerial Conference in Singapore. Above all, the results of the Conference amount to a ringing political endorsement of multilateralism by WTO members. Among the specific results was the agreement to establish working groups to examine the full range of issues surrounding the interaction between trade and investment, and between trade and competition Policy. Depending on the outcome of the working groups’ deliberations, the WTO’s mandate could be extended to cover comprehensively national policies in these two areas which, while ostensibly domestic, are in reality increasingly trade-related.

The WTO is on a roll. This is a very welcome development, not the least because it’s going to need all the momentum it can muster to deal with a number of current and looming challenges.

3. Challenges facing the WTO

This section identifies ten “challenges” facing the WTO. In an order that runs loosely from specific to more general, the ten challenges are:

Achieving a successful outcome of the negotiations on financial services. The stakes are high for the financial services sector, for the GATS and for the WTO. If the United States is not willing to make a full MFN commitment, it is very unlikely that countries would be prepared to extend the existing interim agreement, in which case the future of financial services in the GATS would be very much in question. Fortunately, there appears to be a commitment of the private sector in some of the major countries to a successful outcome. And there clearly is scope for improved offers if governments are willing to reflect...
in their GATS schedules the financial reforms and deregulation which many of them are undertaking.

Implementing all of the Uruguay Round results on schedule. With some high-profile parts of the so-called “built-in agenda” due for implementation a bit further in the future — including all VERs eliminated by the year 2000, the launching of new negotiations on (at least) agriculture and services by 2000, and the critical final 18 months of the MFA phase-out (mid 2003 through 2004) — it is very important for the WTO’s credibility that full implementation of the parts due in the next year or two be achieved on (if not ahead of) schedule. It is less a matter of overcoming political difficulties than of maintaining interest and political momentum in the face of a very heavy WTO work programme that includes more “glamorous” issues.1

Maintaining the excellent record of the new dispute settlement procedures compiled in the first two years. There are some very high-profile cases nearing completion or in the pipeline, including those involving the EC’s banana regime, the United States-EC dispute over the use of growth hormones in cattle, the Fuji-Kodak dispute and the environmentally-motivated US import ban on a certain shrimp. The attitude of the United States on the proposed (now withdrawn, at least for the time being) panel on the Helms-Burton dispute — US officials said they would ignore it — was very worrying. A failure to play by the rules on dispute settlement would strike at the very foundation of the WTO system. If the dispute settlement system does not work, the WTO does not work.

The pending accessions of China and the Russian Federation. It is always difficult to decide at what point a country in transition from central planning to a market economy is far enough along in the process to permit it to observe the full range of WTO obligations and to otherwise play a constructive role in WTO activities. From an economic rather than institutional viewpoint, the situation is further complicated by the role which WTO membership can play in the reform process. While early entry into the WTO can help underpin the reforms and prevent backsliding, an undue easing of the entrance requirements can slow the reform process by undercutting officials pushing the reforms. And because the WTO does not exist in a political vacuum, when a country pursuing membership has the trade and geopolitical importance of China or the Russian Federation, the entire process can be even more complicated. The member countries face the difficult task of identifying the right terms and conditions of accession for these economies which will enable them
to join the WTO, while at the same time not leading to any weakening of the multilateral trading system.

**Integrating a large number of least-developed and other low-income developing countries into the WTO system.** The "single undertaking" nature of WTO membership presents a major challenge to many current WTO members and to a majority of the 28 countries in the process of acceding. Two-thirds of the least-developed countries already in the WTO have no representation in Geneva. For the other one-third, it is generally the case that there is only one person, or at the most a very small number, to cover not just the WTO, but also at least some of the other international organisations in Geneva. What makes this such a serious problem is the fact that the WTO is a "member driven" organisation, in which the delegates play a much more active and important role in the day-to-day activities than is true of other international economic organisations. Nor is the situation of the low-income countries any better when it comes to back-up support in capitals for the heavy workload in Geneva. Unless a major effort to assist these countries is launched very soon, it borders on pure fantasy to believe that they will be in a position to participate meaningfully in the WTO negotiations on (at least) agriculture and services that must begin before the year 2000. If they have not done so already, the demands for technical assistance will soon exceed by a very wide margin the ability of the WTO Secretariat to deliver.

**Competition from regionalism.** It is reasonable to conclude that for much of the post-war period free-trade areas and customs unions have complemented the multilateral trading system (WTO, 1995a). There is, however, no guarantee that this positive relationship will continue, in part because such agreements can be either outward or inward oriented, and in part because of the many problems surrounding the operation of the existing GATT/WTO rules and procedures governing regional agreements — problems which raise the prospect that the post-war complementarity was the result of luck or special circumstances that may not hold in the future. The increasing number of "hub and spoke" agreements, where the spokes benefit less than the hubs (not to speak of third countries), is not reassuring in this regard. More recent concerns have also focused on the risk that the continuing spread of such agreements could lead to a fragmentation of the multilateral trading system and a shift of political momentum from multilateralism to regionalism. The success of the Singapore Conference, together with the Basic Telecoms and ITA agreements, suggest that these concerns are, at least for now, less pressing. An effective response to the other nine challenges on this list would be the most important way for WTO members to ensure the future primacy of the multilateral system.

**Dealing with the backlash against globalisation.** In a number of countries there are signs of public reaction against the ongoing integration of the global economy. In the rich countries the rising share of GDP traded internationally and increased outflows of FDI are alleged to cause, among other things, job losses, a widening gap between the wages of unskilled and skilled workers and pressures for major cut-backs in social welfare programmes. Some of these charges are echoed by critics in developing countries, along with the claim that globalisation is marginalising the poorest countries and, more generally, widening the gap between the rich and poor countries.

There are good responses to all of these charges against globalisation (see for example IMF, 1997). From a WTO perspective, the most important one is that regardless of what is really behind each of these developments, increased protection and resistance to further liberalisation can only make matters worse.

To a large extent, governments have only themselves to blame for the backlash.
Part of the problem is their frequent lack of candour regarding the fact that even though globalisation clearly benefits the country as a whole, some groups in the economy will lose. They leave the door wide open for critics to jump on this fact as though it was a completely unexpected result that tips the balance against globalisation. More important is their reluctance to publicly acknowledge that while globalisation creates tremendous opportunities, it also raises the cost of bad policies — such as labour market rigidities, over-regulation, sub-standard schools and educational policies, tax policies that discourage job creation, and chronic budget deficits that reduce investment by reducing national savings. Most do not go so far as to actually join in blaming increased trade and FDI outflows for the various developments described above, but their silence on the real culprit raises a vacuum which critics of globalisation are only too willing to fill.

Clearly the WTO needs to participate much more forcefully in this debate — stressing the opportunities and answering the criticisms — to guard against an erosion of public support for continued trade liberalisation and a strong multilateral trading system.

Ensuring the WTO keeps pace with changes in the global economy. As trade expands more rapidly than output, a growing share of domestic output is being traded internationally.\(^5\) Along with large multinational firms, small and medium size enterprises in countries at all stages of development increasingly spread their activities — sourcing, marketing, investment — across national boundaries. The WTO, whose primary function is to provide rules designed to reduce policy-related uncertainty surrounding transactions across national frontiers, needs to reflect these and other modern commercial realities. This will require further moves “inside the border” to cover policies that ostensibly are domestic but in reality have become part of countries’ international economic policies.

Other considerations are pushing in the same direction. As countries’ “economic lives” become more intertwined, it is increasingly likely that trading partners will perceive “spillovers” from ostensibly domestic policies, for example, competition policies. Success in reducing many conventional border protection measures is also a factor, causing non-border restrictions on market access to become more visible to trading partners (for example, domestic regulations) and tempting countries to compensate for reduced border protection by introducing new non-border protection. For all these reasons, the working groups agreed to at Singapore — on investment and competition policies, as well as transparency in government procurement — need to get up and running as quickly as possible so they can produce results in time for WTO members to decide whether one or more of these topics will be on the agenda, along with agriculture and services, of the next round of negotiations.

Preparing for the next round of multilateral trade negotiations. Decisions taken at Marrakesh require that another round of trade-liberalising multilateral negotiations, covering agriculture and services, begins before the year 2000 (there is some quibbling about the precise date). It would be possible to limit the negotiations to two compartmentalised negotiations, similar to the ones on basic telecoms and financial services. The initial experience with those two services negotiations raised doubts about this approach, but at least some of those doubts have been dispelled by the recent telecom results. A more ambitious option — and one more in line with what is needed to prepare the WTO for the first part of the 21st century — would be to launch a major new round with several items on the agenda. Such an agenda also has the advantage of allowing countries to take politically difficult decisions in certain areas in exchange for progress in other areas that furthers their trading interests. Candidates for an ambitious agenda that goes beyond agriculture and services include a further round of tariff cuts and
bindings on industrial products, state trading, government procurement, competition policies, rules on foreign investment and reform of the rules and procedures governing free trade areas and customs unions. With just over two years to go, the process of exploring options and deciding on what kind of negotiation to have needs to begin as soon as possible.

Getting the members’ thinking geared to the WTO’s emerging role as the pre-eminent international economic organization. For much of its nearly 50 years of existence, the GATT was a relatively small organisation, known primarily to delegates in Geneva and a handful of technocrats in capitals. Very few people had heard of “GATT” or had any idea what it did. The resources which the member countries were prepared to devote to GATT’s activities reflected this perception of a small, efficient, relatively obscure institution with a narrow mandate. In the past decade, the actual (and potential) role of the GATT/ WTO has been changing dramatically and it is likely to continue to do so, to the point that the WTO soon will be, if it is not already, the pre-eminent international economic organisation. The principal forces behind this changing role are not hard to find: the continuously rising share of national output that is traded internationally (globalisation); the collapse of central planning and the developing countries’ rejection of import substitution in favour of development strategies based on integration into the global economy; the success of the ambitious Uruguay Round, including the expanded mandate of the WTO relative to that of the GATT and the “single undertaking” nature of the WTO; and the approaching near universal membership.

The members’ collective attitude regarding the appropriate level of resources to devote to the “WTO family” — delegates in Geneva, support staff in capitals, and the Secretariat — reflects a kind of modified 1970s thinking. (All references in this article to “the WTO” refer to an aggregate of these three categories of WTO resources.

The occasional use of the term “WTO family” is intended as a reminder of this aggregate definition.) They know the mandate has expanded since then, and they have made incremental additions to the resources available to the WTO, as well as one relatively major addition (by GATT standards) when the WTO took over from the GATT. But the member countries seem to resist the notion that any fundamental changes have occurred. Implicitly, this amounts to viewing the kinds of challenges flagged in this section as not fundamentally different from those the GATT faced at the beginning of the Tokyo Round — in other words, there may be more work in 1997, but deep down it’s still the old GATT. This thinking is evident in the visceral view of many delegates in Geneva and officials in capitals that any non-incremental increase in the resources currently available to the WTO family — and, above all, any non-incremental increase in the current size of the Secretariat — would inevitably destroy the “lean and mean” nature of the WTO and create in its place a bloated, inefficient and under-employed organisation. There is always a chance, of course, that they are right. Then again, as is explained below, it is very likely they are wrong.

4. The ability of the WTO to deal with the challenges.

This section reviews briefly four factors that will determine the capacity (as distinct from the willingness) of the WTO to deal with the challenges just described: the amount of other work to be done; the WTO’s mandate; the WTO’s decision-making apparatus; and the resources available to the WTO.

a. Other ongoing work.

Many important parts of the WTO’s work programme are covered by the challenges outlined above, in particular those dealing with continued implementation of the Uruguay Round Agreements, dispute settlement, integrating lower-income de-
veloping countries into the WTO, getting the working groups agreed to at Singapore up and running, and preparing for the upcoming negotiations on (at least) agriculture and services. But there are also many other parts of the work programme that will demand the attention and time of the WTO in the next two or three years. An illustrative rather than exhaustive list of such work includes the 26 accession working parties other than those for China and the Russian Federation; the 28 working parties examining new free-trade areas and customs unions; trade policy reviews (averaging 15 a year); the Committee on Trade and Environment; the Committee on Balance-of-Payments Restrictions; and activities related to closer cooperation with other international organisations (in particular, the World Bank, the IMF and UNCTAD). Although included in the general category of implementing the Uruguay Round Agreements, it is worth noting that the first reviews of certain Uruguay Round results are scheduled for 1998, including the Agreement on Technical Barriers to Trade and the Agreement on Sanitary and Phytosanitary Measures.

b. The WTO’s mandate

Does the WTO’s mandate limit its ability to deal with any of these challenges? The mandate can be defined as including two elements: one is the fundamental goals of the GATT/WTO system, and the other is the set of “instructions” specifying which sectors of the economy and which policies are to be covered in the pursuit of those goals. The GATT system originally had two fundamental goals or functions:

First, by providing a set of rules and procedures governing countries’ trade-related policies, it reduced policy-related uncertainty surrounding the exchange of goods across national frontiers. These multilateral disciplines, together with reductions in trade barriers, promoted trade-related investment at home and abroad and brought the gains that come from increased international specialisation.

Second, it provided a forum for dispute settlement, and for negotiations both to strengthen and extend the rules and procedures, and to further liberalise trade-related policies.

The instructions regarding the sectors and policies to be covered in pursuit of these goals were simple: the GATT was concerned with trade in goods, and the policy coverage focused on measures applied at the border, in particular, on tariffs and quantitative restrictions.

Between 1947 and 1994 the mandate was enlarged (1) by expanding the goals to include the regular surveillance of members’ policies (the TPRM), and the provision of a forum for discussing existing and emerging policy (a change which lapsed with the demise of the Consultative Group of 18), and (2) by expanding the list of policies covered by the rules to include technical barriers to trade, domestic subsidies and government procurement.

In the Uruguay Round, the fundamental goals were expanded in Article III of the WTO Agreement, which spells out the five functions of the WTO. This was not, however, the most important change in the mandate to come out of the Uruguay Round. Much more important was, first, the expansion of the list of sectors covered by the multilateral rules to include services; and second, the expansion of the list of national policies covered by the multilateral rules, in particular to include national laws for the protection of intellectual property, along with sanitary and phytosanitary regulations, and regulations for pre-shipment inspection.

This perfunctory review of the WTO’s mandate is sufficient to establish not only that the ten challenges fall within the mandate, but that the WTO would be seriously derelict if it did not do whatever was necessary to fully meet all of the challenges.
WTO councils and committees are open to all members, and in practice the membership is virtually identical on all the ones considered important. There is nothing in the WTO which corresponds to the IMF’s or World Bank’s Executive Boards or Interim and Development Committees. The closest the GATT came to such a body was the Consultative Group of Eighteen (CG.18), established on a temporary basis in 1975, made a permanent body in 1979 and effectively disbanded in 1988.

It is widely accepted that there is an urgent need to streamline certain categories of work that ordinarily take place in large meetings (this could be viewed as an eleventh challenge facing the WTO). The core of the problem is the unwieldy nature, in many instances, of meetings with a large number of delegates in the room, and a greater reliance on one or more groups (fora) composed of a relatively small subset of WTO members will necessarily be at the heart of any solution. The general function of such a group would be to provide a forum for discussing and debating major management issues, important trade issues and new policy areas. Depending on the nature of the topic, the group could also attempt to reach a consensus that would then be presented to the entire membership for approval.12

Two competing models for such a group currently are on the table. One involves a formally structured group similar to the previously mentioned CG.18. Besides its relatively small size (not necessarily limited to 18 members), the advantages of such a group include its ability to attract representatives from capitals, and the opportunity it would provide to the many small delegations (well over half the WTO membership) to participate — albeit on a rotating basis — in a high prestige, small inner circle of WTO members. The second option, employed in the Uruguay Round and de facto semi-institutionalised at this point — it was used at the Singapore Ministerial Conference— is often described as the “concentric circles” model. An inner circle of countries serves as the basic discussion, debate and (when necessary) negotiating group. The results are then provided to a second circle or to all the other members, often with a recommendation that a consensus decision be taken on one or more issues. The most important distinction from the CG.18 model is the presence of some flexibility in the membership of the inner circle. Countries which care, strongly about an issue generally can gain membership in the inner circle, allowing custom-designed inner circles that ensure the participation of all the members with a strong stake in the outcome on a particular issue.

It is not clear in which direction efforts to find a better forum for discussion, debate and consensus building are likely to go. What is certain is that pressure for a change is bound to continue to build, as the membership grows from today’s 131 to more than 160, and as WTO decision-making is faced with a widening range of increasingly more complex issues.

A related but distinct issue concerns the future workability of the principle of taking decisions by consensus in an organisation of 160 plus members. While there are provisions for voting — only the entry into force of certain amendments requires unanimity (WTO Article X:2) — a concerted move away from the “consensus rule” could have profound implications for an institution based on contractual obligations.

d. The WTO’s resources.

As has already been noted, there are three main categories of resources available to carry out the WTO’s mandate: the member country delegations in Geneva, their support staff in national capitals, and the WTO Secretariat.14

(i) National delegations in Geneva. A key distinguishing feature of the GATT and now the WTO, relative to other international organisations, is the previously noted
point that delegates from member countries play a much more active role in the WTO’s day-to-day activities. They like to stress that the WTO is a “member-driven” organisation, and such considerations as the number of members with permanent delegations resident in Geneva, the size of those delegations, the extent of the individuals’ professional experience with GATT/WTO activities, and the support they receive from capitals are all important for the operation of the WTO.

Approximately 80 per cent of WTO members have one or more full-time representatives resident in Geneva. But in virtually every instance they also have to cover other international organisations headquartered in Geneva (UNCTAD, ILO, WHO, WIPO and so forth), which means that most of the national delegations are stretched very thin when it comes to staff available for WTO activities. It is not simply the heavy schedule of activities, but also the level of specialised knowledge required by the expanded mandate. While officials from capitals participate in certain WTO activities, the workload is carried primarily by the Geneva delegations, with the assistance of the Secretariat staff.

(ii) Back-up support in capitals. The amount of back-up resources available to the delegations in their respective capitals is very difficult to estimate, in part because much of the assistance is provided by staff who do not work full-time on WTO matters, and in part because it is not enough to consider only staff at the Trade Ministry. Government officials dealing with foreign relations, agriculture, health and safety standards, customs revenue, banking, insurance, telecommunications, patents and trademarks, competition laws and other trade-related policies will, to varying degrees, provide support to colleagues in Geneva. The extent to which the amount of back-up support from capitals varies among the delegations appears to be roughly similar to the degree of variation in the size of the delegations in Geneva. Small delegations in Geneva are likely to have limited back-up support from capitals, and vice-versa for the big delegations in Geneva.

(iii) The Secretariat. One way of putting the resources available to the WTO Secretariat in perspective is to compare the staff and budget with those of other organisations. In a ranking comparing the staff and budget of sixteen international economic organisations, the WTO Secretariat ranks 15th on the basis of staff and 16th in terms of the annual budget. The explanation involves not money, but rather the narrow mandate which the WTO members give to the WTO Secretariat.

Undoubtedly the principal explanation of the member countries’ desire to keep the WTO Secretariat relatively small, and to give it only a limited role in fulfilling the WTO mandate, is the fact that trade policy is so highly politicised at the national level. Governments fear the political consequences at home of any step in the direction of giving the Secretariat more authority and a bigger role. This does not mean they never take such steps, but they do so very cautiously and only infrequently.

Many of the smaller countries, it should be added, apparently would be prepared to accept a larger and more activist Secretariat because they believe it would help them in protecting and promoting their trading interests. Aside from a possible uneasiness about any step that might enhance the ability of smaller countries to protect and promote their trading interests, the larger countries have two incentives for keeping the Secretariat small. Each member’s contribution to the Secretariat’s budget is based on its share of world trade, which means that increases in the budget are paid for primarily by the larger traders, while many of the benefits from increased Secretariat activities would go to the smaller traders (more on this below). In addition, given the one-country, one-vote nature of the WTO, the large countries have an incentive to see to it that the delegations (that is, themselves) hold...
on to the bulk of the authority and influence over the nature and direction of WTO activities.

One approach to improving the WTO’s resource base would be to finance a minimum number of resident delegates for every country out of the WTO budget. After all, the salaries and other expenses of the executive directors of the IMF and World Bank are paid out of the respective budgets of those two organisations, even though those executive directors represent governments. This could offer a model for dealing with a serious WTO problem, namely the shortage — in 21 instances, the absence — of an adequate number of delegates resident in Geneva and available for full-time work on WTO activities. If the target minimum was three professionals full-time on WTO activities, one option would be to use the WTO budget to finance additional staff for those member countries whose current delegation falls below this minimum.

An easier to administer option (that differs from the first option more in form than substance) would be to provide every WTO member with enough funds from the WTO budget to finance three professionals in Geneva. For each WTO member with at least one professional resident in Geneva, there would be a reduction in the Trade Ministry’s personnel budget and an increase in the contributions to the WTO. Of course, countries would be allowed — indeed strongly encouraged — to have more than three professionals in their WTO delegations.

Since contributions to the WTO budget are based on shares of world trade, the larger trading nations would be financing to varying degrees the delegations of the smaller traders. An agreement to finance a minimum number of resident delegates in Geneva in all delegations would provide the major trading countries with an opportunity to demonstrate their commitment to a “member driven” WTO.

e. Improving ongoing activities

In addition to carrying out its new responsibilities, the WTO must periodically review its performance in more established lines of activity. The Trade Policy Review Mechanism (TPRM) is an excellent example.

Under the TPR mechanism, the four largest traders (the EU, the United States, Japan and Canada) are reviewed every two years, the next 16 largest traders every four years, and the remaining members every six years, with a longer interval envisaged for least—developed countries. The principal rationale behind this schedule presumably is two-fold: first that the trade policies of the biggest traders matter more for world trade than do the policies of the smaller traders; and second, that undergoing a trade policy review is a burden imposed on a country from the outside, which countries reluctantly accept in exchange for the benefit of having the trade regimes of their trading partners regularly reviewed.

One of the most important benefits of the trade policy reviews that have been carried out thus far is the recognition that the principal beneficiary is the country being reviewed. For the first time, officials have a comprehensive view and understanding of their overall trade regime. Transparency appears, often, for the first time, inconsistencies become apparent, and areas most in need of reform become clear, again often for the first time. Subsequent trade policy reviews provide the government with an independent assessment of the progress and direction of their reforms.

These arguments alone are enough to support the proposal to “TPR” the lower-income WTO members more frequently than once every six years or longer. One option would be to do a full review every four years, with an interim review halfway through the four-year period (as is now done with the four largest traders). The case for more frequent trade policy reviews is further strengthened by two additional
considerations. Economic reformers are often fighting an uphill battle against entrenched special interest groups and lobbies. A regular dose of transparency and publicity concerning both the pace of trade policy reform and the obstacles to further reform would provide welcome support to reform-minded officials.

Even more important is the potential for using the WTO, via frequent use of the TPR mechanism to help reforming countries attract badly needed foreign direct investment. Frequent trade policy reviews would allow the WTO to be an “agency of restraint” that offers foreign investors reasonable assurance, backed up by regular surveillance, that the trade-related reforms will not be reversed (such assurances are also important in eliciting a positive response from the domestic private sector to the economic reforms). Reforms based on WTO obligations obviously fall in this category. By taking advantage of the right to bind reforms (and not just reduced tariffs) in its WTO schedules, a country can use the WTO to provide a broad guarantee that trade-related economic reforms will not be reversed.

Technical assistance is another WTO activity under resource pressure. The need of many low-income members for technical assistance on WTO-related issues exceeds by a wide margin anything seen under the GATT. The WTO is a more complicated agreement and new members are often poorly equipped to handle its demands. A boost in Secretariat resources will be required to help lower-income members deal with the new system and prepare for the next round of negotiations. 17

5. The Global Economy Needs a Strong WTO.

The case for ensuring that the WTO has the resources and mandate appropriate to the demands of the emerging global economy receives a strong boost from the findings of research on the determinants of growth at the national level. High levels of savings and investment, technological advances, giving priority to education, and similar characteristics of a society have traditionally dominated lists of growth-promoting factors. Stimulated by the work of Douglass North on American and European economic growth, and four decades of post-war experience in developing countries, economists are adding the quality of a nation’s institutions to the list of factors which must be included in the analysis of economic growth.

This is, in most respects, a relatively new development. A characteristic which international economics textbooks share with textbooks in many other areas of modern economics is a neglect of transactions costs, property rights, institutions and rules of the economic game. Traditionally taken as given, these central aspects of economic life are not allowed into the analysis. Sensing their importance for understanding economic growth, and building on the work of Schumpeter, Coase, Alchian, Cheung, Demsetz and others, North developed a theory of institutions and applied it to economic history, an achievement for which he was awarded (along with Robert Fogel, another economic historian) the 1993 Nobel Prize in Economics. 18 One important line of his analysis is evident in the following quotation:

The institutions necessary to accomplish economic exchange vary in their complexity, from those that solve simple exchange problems to ones that extend across space and time and numerous individuals. The degree of complexity in economic exchange is a function of the level of contracts necessary to undertake exchange in economies of various degrees of specialization. Non-specialization is a form of insurance when the costs and uncertainties of transacting are high. The greater the specialization and the number and variability of valuable attributes, the more weight must be put...
on reliable institutions that allow individuals to engage in complex contracting with a minimum of uncertainty about whether the terms of the contract can be realized. Exchange in modern economies consisting of many variable attributes extending over long periods of time necessitates institutional reliability, which has only gradually emerged in Western economies. There is nothing automatic about the evolution of cooperation from simple forms of contracting and exchange to the complex forms that have characterized the successful economies of modern times (North, 1990, p. 34; emphasis added).

In summing up North’s contribution to economic analysis, Myhrman and Weingast (1994, p. 193) observe that he has shown us that:

The wide variations in growth performance across countries and over time cannot be fully understood without explaining the emergence and non-emergence of certain institutions receptive for growth.

As is evident from the two quotations, North focuses on the role of institutions at the sub-national and national level in explaining differences in growth rates among countries and within the same country over time. He makes frequent references to specialisation and the gains from trade, but always within the context of domestic trade within a single country. However, there is no reason to assume that his findings are relevant only for national institutions. Indeed, it seems entirely plausible that, as global economic integration progresses, North’s conclusions about the central role of institutions at the national level become increasingly applicable at the multilateral level. Multilateral commerce requires multilateral institutions. The brilliance of the architects of the Bretton Woods institutions (including the GATT) and the OEEC is evident in their ability to recognise this well before it had been conceptualised and empirically verified even at the national level.

Drawing on both theory and empirical research, North’s books and articles elaborate in great detail exactly how institutions help to promote economic growth at the national level. In order to gain insights into the role the WTO plays in promoting international commerce and economic growth, Petersmann (1997, pp. 1—65) analyses the WTO as a model for protecting freedom, non-discrimination and the rule of law across frontiers. A central theme of his analysis is the “constitutional” function of international organisations, and in particular of the GATT/WTO. Within this context, he identifies three functions of international organisations, which he describes as similar to those fulfilled by national organisations (institutions): to correct market failures, to correct government failures (trade protectionism being a leading example), and to assist in the supply of international public goods (such as the successful Uruguay Round).

The role of the GATT/WTO in avoiding and correcting government failure in the trade area is analysed from a political science perspective in Goldstein (forthcoming). She begins from the well-known proposition that because the gains from freer trade are spread throughout the society, interest group pressures are biased toward those who lose from freer trade. The over-representation of protectionist interests means that without institutional support, it is difficult for a democracy to sustain a liberal trade policy.

Her goal is to explain how international rules and norms affect governments’ interest in, and ability to sustain, a liberal trade policy. Four ways in which international institutions affect domestic politics are identified: they act as agenda setters, tying the hands of domestic policy makers and undercutting the influence of protectionist interest groups; by bundling or linking different issues, they make it easier to put together a majority in favour of freer
trade; they can change the status of domestic courts and legal institutions; and they can alter the domestic normative discourse.

What might be called a “double dynamic” is currently at work. The rising share of national output which is traded internationally, and the rising share of national savings which is invested abroad, give the multilateral institutions an increasing role — along with national institutions — in determining each nation’s rate of economic growth. In addition, as globalisation progresses and the nature of international commercial relations becomes more complex, the multilateral organisations which provide the institutional and legal frameworks for these cross-border commercial activities need to evolve in ways that allow them to continue to keep pace with the changing conditions.

Claims that this amounts to a call for creating supra-national institutions and transferring greater or lesser amounts of authority from national capitals to those institutions are wrong, at least as regards the WTO. True, the WTO lays down rules that reduce the amount of discretion countries have over their trade-related policies, and it has a dispute settlement system that interprets (but does not determine) those rules. But that is very different from an institution with legislative or policy-setting powers. Setting limits on what governments can do, in order to make their trade-related policies more predictable, is a far cry from telling governments what they can or should do. In other words, the argument that giving the WTO more resources and more authority amounts to giving a bigger role in world affairs to faceless unelected bureaucrats misses the mark, given that the WTO is — and will continue to be — a “member driven” organisation. The “rules of the road” for international commerce are determined and enforced by government representatives from the member countries.

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Clem Boonekamp, Chulsoo Kim, Jesus Seade and Peter Tucho for very helpful comments and suggestions on key parts of earlier drafts. Any factual errors, incorrect conclusions or naïve recommendations are the author’s own responsibility.

Notes

1. One part of the implementation involves commitments regarding notification requirements, which number well over 200 following the Uruguay Round. This led members to establish a Working Group on Notification Obligations and Procedures, with a mandate to arrive at recommendations on means to simplify, and standardize notifications, and to improve compliance and transparency. See WTO (1996, pp. 110-24) for details.

2. At Singapore there was also agreement (i) to establish a working group to study the issue of transparency (read “corruption”) in government procurement practices, and (ii) to undertake exploratory work on “trade facilitation”, that is, the simplification of trade procedures (such as customs formalities and licensing procedures) in order to assess the scope for improved and expanded WTO rules in this area.

Regarding the interaction of trade and investment issues, WTO (1996, ch. IV) builds a very strong case for bringing national rules on FDI under new WTO disciplines.

3. In addition to the “WTO Activities” in WTO (1996, ch. V), details on the WTO work programme can be found in WTO document (WF/L/88, 19.10.95) entitled “Provisions for Review, Future Work or Negotiations in the WTO Agreement and Related Decisions and Declarations”; in the 1996 annual reports of the WTO bodies compiled in WTO document WT/MIN(96)/2; and in the Declaration issued at the end of the December 1996 Ministerial Conference. All three documents are available from the Secretariat, as well as on the WTO website (http://www.unicef.org/wto

4. See Blackhurst (forthcoming). National delegates also play an important role in the OECD’s work.


In January 1997 the European Commission gave strong support to proposals to clarify and otherwise improve WTO rules and procedures governing free-trade areas and
customs unions (European Report, 1997).

6. For the world as a whole, the ratio of trade to GDP roughly doubled between 1950 and 1974, from 7 to 15 per cent. In the past two decades it has increased to about 22½ per cent, and there is no reason to believe it will not continue to rise for the foreseeable future (WTO, 1995b, pp. 15-23).

7. A majority of WTO members accept that what they have given up in trade policy discretion by accepting WTO rules and disciplines is more than compensated by the increased predictability and stability of trade policies (at home as well as abroad). Much the same thinking is behind efforts at international rule-making in new areas such as the treatment of FDI.

8. See Blackhurst (forthcoming).

9. See footnote 3 for a list of references that provide details on the work programme.

10. The material from here through the end of Section 4 draws on Blackhurst (forthcoming).

11. The five functions are, respectively, to administer and implement the multilateral and plurilateral trade agreements which together make up the WTO; act as a forum for multilateral trade negotiations; administer arrangements for the settlement of disputes, review national trade policies; and cooperate with the IMF and the World Bank with a view to achieving greater coherence in global economic policy making. The first three functions were part of GATT’s original mandate, and the fourth was provisionally added in 1989 and made permanent under the WTO. Only the fifth function is a completely new addition.

12. Since there is no prospect of the WTO adopting weighted voting, such a group or groups would not—in contrast to the UN Security Council and the Executive Boards of the IMF and World Bank—actually take decisions.

13. Voting very rarely occurred in the GATT, there being a strong preference among members to operate on the basis of consensus, and the members have expressed a preference for the practice to continue in the WTO (because the GATT Council did not have authority to approve waivers and accessions, voting on those matters—via mail ballots—was necessary). WTO Article IX on decision-making states “The WTO shall continue the practice of decision-making by consensus followed under GATT 1947. Except as otherwise provided, where a decision cannot be arrived at by consensus, the matter at issue shall be decided by voting.” See Blackhurst (forthcoming) for a summary of the provisions on voting in the WTO.

14. A fourth category of resources, which traditionally has not been important, but which may become more important in the future, involves cooperation with other inter-governmental organisations and nongovernmental organisations (NGOs).

15. Recalling the “member driven” description of the WTO, a very rough guess would put the number of delegates resident in Geneva and working more or less full-time on WTO activities at around 300. If this figure is added to the 513 person Secretariat staff, there are still nine international economic organisations among the 16 with larger staffs. See Blackhurst (forthcoming).

16. While avoiding any hint of cross-conditionality the timing of reviews might be loosely coordinated with the IMF’s Article IV consultations, in order to bring out both the role of trade policies to the country’s overall economic performance, and especially the importance of macroeconomic support for the structural changes set in motion by trade policy reforms.

17. For a proposal, including establishment of WTO regional offices, see Blackhurst (forthcoming).

18. See Myhrman and Weingast (1994) for a short but informative overview of North’s contributions to economics.

19. See also Roessler (1993).

References


International Monetary Fund (1997), *World Economic Outlook* (May).


