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## Challenges facing the WTO and policies to address global governance

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### Origins of the WTO's new challenges

The multilateral trading system, with the World Trade Organization (WTO) at its centre, is the most important tool of global economic management and development we possess. Its record—under the old General Agreement on Tariffs and Trade (GATT) as well as its successor, the WTO—has been remarkable. Over the past 50 years, it has created wealth in its industrialized members, brought poor nations from backward, rural economies to super-competitive commercial giants, and opened up prospects for today's poorest countries to advance.

Yet, although the institution has already shown itself to be a success, and it has much more to offer in the future, the WTO today is under strong attack. Much of this criticism is a reflection of a perception, on the one hand, that the WTO has not—and will not—resolve every problem facing the global economy and social development and, on the other, that the machine is out of gear, idling, and failing to tackle the new challenges presented by the process of globalization.

Many governments appear to believe that they, and the institution, are best left to digest what has already been achieved. That has

## 82 Addressing Global Governance in the WTO

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left other key constituencies displeased with the WTO's performance and led some to be openly hostile. Some developing countries, which now comprise the overwhelming majority of the organization's members, claim it is inherently biased against their interests and produces asymmetrical agreements. They are also disappointed by the level of trade-related technical support they have received from donor countries and other multilateral institutions in order to cope with the pressures of implementing WTO commitments. Lacking either the courage of their own convictions or confidence in their ability to prevail over domestic opposition, the chief financial backers of the WTO have failed to provide adequate funding for a WTO Secretariat (by far the smallest of all the major multilateral institutions) that is already overburdened by technical assistance demands as well as by dispute settlement cases and new accessions.

Industrial governments, sometimes acting as proxies for powerful civil society interests, are frustrated by the stubbornness of developing countries in opposing new measures or discussions on labour standards, environmental standards, and the transparency of WTO operations. Furthermore, there are growing indications that parts of the business community are growing impatient with the slow pace of WTO decision-making and are dissatisfied with negotiating results that appear to them to be least-common-denominator solutions.

The organization is subject to a nearly unmanageable array of conflicting pressures. Some civil society groups are lobbying for its powers and mandate to be *expanded*. They want trade sanctions to be used to enforce agreements on labour, environmental, or other standards. Other civil society groups are pushing in the opposite direction. They want the WTO's authority to be pared back in ways that they believe will strengthen existing social and environmental standards or protections.

At the same time, the WTO is suffering from an alarming lack of leadership on the part of most of its largest members. The major industrial countries, whose unity has traditionally been essential to progress on substantive issues or institutional reforms, are divided. These same countries have done an extremely poor job of making a public case for more open trade and the continuation of economic liberalization upon which much of their current wealth is based.

Several of them also have failed to provide adequate income and training support for those workers, primarily the lower skilled, who have been adversely affected by trade liberalization. The follow-up to the UK Labour Party's electoral motto "Education, Education, Education" can be summarized in most instances as far too little, far too late. As a result, public support for open trade has been further undermined.

The breakdown of the Seattle Ministerial Meeting was an indication of the disturbing state of affairs in the trading system. Not that the picture is wholly black. Important work is taking place now in Geneva on the two key sectors—agriculture and services—designated for further work at the end of the Uruguay Round. This work is progressing well, if quietly, and has the potential to provide a significant boost to global trade expansion. But the conclusion of these negotiations, in some eyes at least, is wholly dependent on the launching of a broader trade round. And that, as Seattle demonstrated only too vividly, is not going to be easy.

In seeking to drive the process of trade reform further forward, the WTO faces one set of problems that relate to national politics and should be transitory, and another that could be called structural. Here we focus on the structural issues. Solutions to some of the WTO's problems can be envisioned, and several promising ones have recently been proposed. But many of the more serious challenges the WTO faces are the consequence of much broader trends and developments. These challenges can ultimately be addressed only in the course of renovating the current system of global economic governance, of which the WTO is but a part. The WTO and the multilateral trade system it oversees are in trouble, in other words, less because of their own flaws than because of more fundamental failures of global economic leadership.

This chapter sets reform and strengthening of the WTO in the context of the emerging debate over global governance and proposes reforms in WTO structure and decision-making that respond to several of the organization's key problems. The final section shifts to the challenges of global governance, particularly international economic governance. It argues that the WTO's mandate must be adjusted simultaneously with the mandates of other international

## 84 Addressing Global Governance in the WTO

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economic institutions, and that the issue of the coherence of the current multilateral system of institutions needs to be addressed in a systematic way at the highest political level.

### Suffering from success

This is not the place to recite the history of post-war trade negotiations. Nor must one grasp all of that history to understand how the WTO arrived at its current predicament. It is important to underscore, however, that the WTO, in many ways, has been a victim of its own success.

The WTO and its predecessor, the GATT, have had remarkable success, particularly in bringing down traditional tariff and non-tariff barriers to trade during the eight post-war global trade rounds. In the five decades following the creation of the GATT, average tariff levels on manufactures in the industrial countries declined from around 40 per cent to less than 4 per cent. The value of world merchandise trade increased eighteen-fold during that same period, an average annual increase of 6 per cent, or three times the average annual growth rate of per capita GDP.<sup>1</sup>

The dismantling of border barriers during successive post-war trade rounds ultimately brought trade negotiators face-to-face with a variety of domestic regulatory, institutional, and structural influences on trade flows. Convinced that many of these trade-related factors impede the free flow of goods and services, trade negotiators began to tackle some of them in the Uruguay Round. Because they are closely linked to domestic business practices, cultural preferences, and political arrangements (some with deep historical roots), negotiations on these matters have tended to be more sensitive and complex than negotiations on traditional tariff and non-tariff barriers. Finally, the increasing ambition of multilateral trade negotiations in areas that had previously been regarded as the prerogatives of domestic policy-making has prompted a correspondingly wider range of civil society stakeholders to take an interest in what the WTO does.

The impressive record of the GATT and WTO in reducing trade barriers has profoundly influenced the calculations of developing

country governments, trade negotiators, and civil society institutions. The drawing power of the GATT and WTO for developing and transitional economies is underscored by the existence of a 30-country accession queue throughout the 1990s. More than 100 of the WTO's 138 current members are developing countries. Moreover, as many observers have pointed out, the performance of the WTO's dispute settlement mechanism has attracted the attention of a wide range of social and political activists, who wish to see the WTO's enforcement authority put in the service of their favoured causes.

But the achievements of the GATT and WTO only partly explain what is happening to the WTO today. Three trends, each of which we have just briefly touched upon, go a significant way toward explaining the challenges now facing the WTO and the multilateral trading system: (1) the increasing participation of developing countries in the GATT and the WTO; (2) the growing attention of multilateral trade negotiators to barriers to trade *behind* national borders; and (3) the increasing influence both over the multilateral trade agenda and over the trade policies of key industrial countries of networks of civil society groups.

### Developing countries and the WTO

If the key international economic story of the first two post-war decades was the astonishing transformation of Western Europe and Japan from devastated recipients of reconstruction aid into first-rank industrial powers and competitors of the United States, the story of the three succeeding decades has been the equally remarkable emergence of developing nations as significant players in the global economy. One measure of this trend is the share of developing nations in world exports of manufactures, which increased from 4 per cent to more than 24 per cent between 1963 and 1997.<sup>2</sup> Another measure is the massive increase since the 1980s in investment in developing countries by industrial country firms and portfolio investors, and increasingly by investors from emerging market countries. The ratio of the stock of foreign direct investment to GDP nearly tripled for developing countries, from 5.9 per cent to 16.6 per cent, between

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**86 Addressing Global Governance in the WTO**

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1980 and 1997.<sup>3</sup> Aggressively seizing export and investment opportunities created by the expanding world economy, a number of poor nations turned themselves into major industrial powers in just three decades.

These aggregate figures hide a tremendous diversity in the developing world, however. It is now necessary to distinguish clearly between the emerging economies and the middle-income developing countries, on the one hand, and the poorer countries, including those classified as least developed by the United Nations. The latter have their own unique set of concerns about the trade system and the WTO, motivated by the fact that they are in effect isolated from the global economy. Contrary to the overall developing country trend, the share of international commerce of the world's four dozen poorest countries, whose population exceeds 1 billion, is shrinking. Since 1980, the exports of least developed countries (LDCs) have grown only one-fourth as fast as the developing country average.<sup>4</sup> The participation of the poorest nations in world commerce is limited in scope as well as in depth. Unprocessed raw materials account for 75 per cent of their exports. Most generate more than 70 per cent of their export earnings from their three top exports.<sup>5</sup> This dependence on a narrow range of exports makes poor countries more vulnerable to external shocks, and primary commodities have lost half their value relative to other products over the past two decades.

The growing stake of developing countries in the world economy has both strengthened their claim to a role in its management and increased their confidence in asserting that claim. Historically, the poorest developing countries have been slow to assert themselves in the GATT and the WTO. In both institutions every member country formally enjoys an equal say in the development of consensus decision-making—a feature that would appear to offer less powerful countries some leverage to achieve their aims. Until recently, the developing countries' strategy appears to have been largely defensive. They have sought to ensure “special and differential treatment” in trade agreements and a series of concessions and exceptions from certain internationally agreed disciplines on the grounds they were at a lower level of development to other WTO members.

The Seattle meeting of the WTO demonstrated that the politics of developing country participation in the WTO has changed. Although the media paid great attention to the protests in Seattle's streets, these were not the cause of the meeting's failure. Rather, it was the virtually total lack of consensus among the industrial countries, joined with the refusal of the developing countries to agree on the new round agenda and other issues, that led to the breakdown of the discussions. The unified front presented by developing countries was not a surprise to many close observers of the WTO: many of the concerns raised by developing nation delegations in Seattle had figured prominently in preparatory sessions for the Ministerial Meeting for more than a year prior to the event, and some have been staples of WTO discussions since the conclusion of the Uruguay Round. But the unprecedented unity of developing countries and their willingness to stand in the way of a consensus in favour of starting a new round were surprising to many Ministerial participants and observers.

Some developing countries in Seattle were also deeply dissatisfied by what they perceived as a selective, exclusionary system of decision-making in the WTO. The traditional so-called "Green Room" process, in which a group of up to 40 member countries, including many developing countries, tries to reach preliminary agreements on matters under negotiation, and then present them to the rest of the delegations, came in for sharp criticism in Seattle.

Ironically, in Seattle, WTO Director-General Mike Moore and US Trade Representative Charlene Barshefsky, the co-chairs of the Ministerial Meeting, made a concerted, good-faith effort to broaden the participation of delegations in the negotiations. They divided the Ministerial agenda into several sections, created working groups for each, and invited all delegations to participate in all the working groups. Their goal was to keep Green Rooms to a minimum. But developing country delegations, in particular, had difficulty covering all of the working groups, and as the Ministerial week proceeded and agreements remained elusive, the temptation to pull together smaller groups of countries for harder bargaining—Green Rooms, in other words—understandably grew. In communiqués released towards the end of the week, large groupings of African and Latin

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**88 Addressing Global Governance in the WTO**

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American countries denounced what they described as the Ministerial's exclusive and non-democratic negotiating structure.

The governments of the so-called "Quad" countries (the United States, the European Union, Canada, and Japan) made considerable efforts in Seattle to build winning coalitions between themselves and like-minded developing nations. But the growing numbers of *active* developing countries had transformed not only the politics but the math of bargaining in the WTO. Events in Seattle clearly suggest that the WTO is testing the limits of its consensus-based decision-making system, which would appear to be ideally suited for an organization of no more than several dozen *active* members.

Poorer developing countries have long complained that WTO discussions are dominated by a handful of powerful member countries. Many developing nations simply lack the Geneva-based staff and resources necessary to cover the WTO effectively; some have no representatives in Geneva at all. In addition to an extensive weekly schedule of formal meetings, WTO members come together in various groupings for a large number of informal gatherings, during which many of the organization's most important decisions are hammered out. A selection of influential developing countries are routinely invited to these meetings (e.g. Argentina, Brazil, Mexico, Egypt, India, South Africa, ASEAN members), but the majority do not participate. Even if they are aware that a meeting is taking place, some delegations argue, they are rarely invited to participate; even if they are invited, many lack the staff or expertise to participate effectively. According to some developing country representatives, they are frequently confronted with "take-it-or-leave-it" decisions which they had little role in shaping.

Before and during the Seattle Ministerial, developing countries also aggressively pressed concerns on the "implementation" of Uruguay Round agreements. They argued that industrial countries had failed to implement—in the spirit, if not the letter—some of their commitments faithfully, particularly in the crucial textile and agriculture sectors and in the anti-dumping agreement (with the United States singled out for special criticism). Dozens of countries also demanded additional time and technical assistance for their own implementation of the agreements on Trade-Related Intellectual



Property Rights (TRIPS), Trade-Related Investment Measures (TRIMS), Sanitary and Phytosanitary Measures (SPS), and Customs Valuation. Many countries believe they should have been given “credit” for unilateral trade liberalization measures taken pursuant to structural adjustment and other economic reform programmes.

In order to avoid marginalization, the LDCs have sought two additional measures in recent years: technical assistance from the WTO and aid agencies that will enable them to participate more effectively in the WTO and in multilateral trade negotiations, and duty-free access to major export markets. Both matters were discussed at length prior to and during the Seattle Ministerial, and further negotiations have taken place since then. But a worthwhile package of technical assistance has yet to be approved by Quad countries, giving the poorer nations one more reason for being deeply disappointed in the WTO.

Reasonable people can disagree about the legitimacy of each of these developing country complaints about the WTO. Some of the criticisms are overstated, some are made for bargaining purposes, and developing countries can sometimes be faulted for failing to acknowledge the gains from the Uruguay Round and other trade liberalization initiatives. The important point here is to recognize that these concerns are sometimes strongly felt by developing countries, that developing countries have come to dominate the WTO numerically, and that they are increasingly willing to use their numbers to thwart the negotiating objectives of the WTO’s more powerful members. The economic emergence of developing countries thus poses a significant—though, we would argue, healthy—challenge for the governance of the multilateral trading system.

### **The changing character of trade negotiations**

The evolving character of multilateral trade negotiations poses the second major challenge confronting the WTO. Many observers have argued that the relatively “easy” work of multilateral trade liberalization had been completed by the end of the Tokyo Round in 1979. The Uruguay Round, together with many regional and bilateral liberalization initiatives, has since completed the elimination (in

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## 90 Addressing Global Governance in the WTO

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certain industrial sectors) or dramatically reduced most tariffs, quotas, and other border barriers to commerce. Outside the very high levels of protection maintained by industrial countries in sectors such as agriculture and textiles and the still generally high tariffs in many developing nations, the chief obstacles to increased international commerce and the rapidly expanding electronic delivery of goods and services are now said to lie elsewhere. The focus of attention is now domestic regulatory measures, business practices, structural impediments, competition policies, and other features of domestic economies whose purposes are often not directly related to the regulation of trade.

Two analysts have aptly described this change in the predominant focus of trade negotiations as a “paradigm shift.”<sup>6</sup> This is not a theoretical proposition, however. A number of significant liberalization initiatives, and several more presently under discussion, have grappled with these new “trade-related” issues. Prominent examples include the Uruguay Round’s agreements on services, TRIPs, TRIMs, and government procurement, as well as parts of the agricultural trade deal, the investment-related provisions of the North American Free Trade Agreement (NAFTA), and any number of the European Union’s single market initiatives.

Not surprisingly, negotiations on these new paradigm issues have proven extraordinarily complex and contentious. The policies and practices targeted in these negotiations are often far less transparent than traditional border barriers. They sometimes have deep roots in national history, culture, government–business relationships, and institutions. As in most trade talks, trade ministries typically lead national delegations in these negotiations, and trade ministers are jealous of their turf, but expertise and authority over new paradigm issues often reside in other ministries and with other officials, with different agendas.

It is often the case with the new issues that a wide variety of domestic constituencies—constituencies with little or no direct connection to the trade sector—perceive themselves to have a stake in the policies and practices affected by these liberalization initiatives. But the challenge for trade negotiators does not, of course, only come from the *defensive* efforts of domestic stakeholders seeking to

protect policies, practices, and values-linked trade. Increasingly in recent years, non-governmental organizations (NGOs) have taken the initiative in insisting that certain values (e.g. labour and human rights, environmental protection) are in fact linked to trade and should therefore be addressed in trade negotiations. And the stakeholder groups concerned about these linkages—both defensive and “offensive”—are often as interested in the implications of trade for policies and practices in other countries as they are about conditions in their home countries.

The trade/labour and trade/environment issues have proven especially contentious for at least two reasons. First, the stakeholders that take an offensive posture on these issues (mainly industrial country NGOs and trade unions) want environmental and labour standards to be enforced with trade sanctions. Those that take a defensive posture (developing country governments that view trade-linked standards as a disguised protectionist threat, but also industrial country environmental NGOs concerned that certain kinds of trade liberalization will undermine existing standards) tend to be equally highly motivated and do not want these issues discussed as part of trade negotiations. Secondly, as the first point implies, industrial country and developing country stakeholders tend to be on opposite sides of both sets of issues. To be precise, in the WTO, as elsewhere, the relationship between developing country governments and industrial country civil society groups is emerging as a key source of tension.

One must be careful about making excessive generalizations about the labour and environment issues, however. Multilateral discussions on the trade/environment link are much further along than are discussions on trade and labour issues. Several WTO agreements directly or indirectly address environmental matters, and the WTO's Committee on Trade and the Environment, although criticized by many for failing to find solutions to key outstanding issues, has served as a useful focal point for discussion and analysis—two prerequisites for consensus. On the labour standards issue, in contrast, there is nearly unanimous opposition to the creation of a trade and labour standards working group inside the WTO. It is worth noting that, in contrast to the WTO's discussions on trade and envi-

## 92 Addressing Global Governance in the WTO

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ronment issues, which enjoy broad multilateral support, the case for a formal WTO programme of work on trade and labour standards has been made principally by one country, the United States.

Although the concerns that motivate them are extremely diverse, those who seek to address these new paradigm issues through trade negotiations often share a common aspiration: the harmonization of regulatory standards, laws, and business practices that vary from nation to nation. Collectively, their efforts raise fundamental questions about global governance: Should the harmonization of standards be a goal of international economic bargaining? Will it occur even without deliberate efforts by governments? Can the global economy achieve its full potential without significant further harmonization of standards across nations, just as successful national economies required the adoption of common standards by constituent political units (e.g. states or provinces)? Or can national differences be maintained without substantial losses of efficiency? Can and should a variety of national approaches to the regulation of the economy be maintained simultaneously, or will globalization inevitably lead to convergence between nations? To the extent that harmonization is pursued, how should nations decide which standards to apply? Does the political sustainability of global economic development require the adoption of common social and economic safeguards (e.g. protection for rights and the environment, social safety nets) analogous to the kinds of safeguards that have proven critical to the success of national economic systems?

It is clear from these preliminary questions that the WTO as an institution and the trade ministers principally responsible for guiding its work are not equipped to address such issues. This is not to suggest that the WTO should not take up new challenges. A plausible case can be made for discussion of many new issues in the WTO. The question that needs to be asked of each issue, though, is whether it is *ripe* for WTO treatment. Is there agreement on what part of a particular issue is affected by trade and is therefore a legitimate concern of trade negotiators? Is there something like consensus on the question of whether there ought to be a common international standard in a given area, against which national measures can be judged in violation? Introducing new issues into multilateral trade talks

before they have fully ripened risks damage to open trade, to the values motivating the advocates of the new issues, and to other values.

In the absence of greater international consensus on the broader governance challenges noted above, most efforts to introduce new paradigm issues into the multilateral trade system have been highly contentious. The record in the WTO during the past several years confirms this, and the damage to world trade—so far mainly in the form of lost opportunities for further liberalization—has been sizable.

### The role of civil society in the multilateral trade system

Although many besieged trade officials in national governments and the WTO might not agree, the involvement of civil society groups in trade policy debates can be a positive development for the multilateral trade system. Some of the perspectives and concerns that these groups are bringing to bear on governments and on the WTO are a valuable counterweight to the industry perspectives that, in some countries, are still the dominant external input into official trade policy discussions. But the growing involvement of NGOs in trade policy often is not as constructive as it should be, and figuring out ways to make it so is the third major challenge facing the WTO and the multilateral trade system.

Several issues require addressing. First, there is a need to devise mutually acceptable mechanisms for coordinating the input of civil society groups in the WTO and in the preparation of multilateral trade negotiations. The principal burden of managing the contributions of civil society must continue to be shouldered by the government of the country in which a given NGO is located. However, some NGOs have become large global institutions and others have forged international alliances. This, together with the supranational character of many of their concerns, may argue for additional measures to be taken at the multilateral level.

Many WTO members will oppose steps that appear to give NGOs a formal role in an intergovernmental organization. For their part, some NGOs might regard any formalization of their contributions to multilateral trade discussions as a form of co-optation. Both

## 94 Addressing Global Governance in the WTO

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sets of concerns can be overcome, as long as the role of NGOs remains an advisory one and national governments retain the sole right to negotiate within the contractual framework that the WTO represents.

If NGOs were to be given an enhanced advisory role in the multilateral trade system, though, they must accept additional responsibilities. In particular, NGOs must become more accountable to the public and to governments. Too often in recent years, NGOs involved in trade debates have made questionable claims about the scope of public support for their positions. Information on the sources of their financial support has also often been hard to come by. Ironically, corporate participants in trade debates tend to be more transparent in both respects, often because the laws of their home nations require them to be.

Without additional information on NGO membership and finances, it will be difficult for governments to make well-informed judgments about their work or, in cases when it is not possible to consider all relevant views, to make decisions about which groups should be given an opportunity to address a particular issue. In exchange for any role in trade policy debates—largely at the national level—NGOs should be required to accept new standards of disclosure for membership and financial data.

The long-term viability of the WTO, and of the multilateral trading system, requires action by governments on two levels: the first is within the WTO itself; the second concerns the governance of the multilateral system, of which the WTO is a part.

### A more agile WTO

The first step is to address the problems and challenges described in the previous section in order to make the WTO a more agile organization. These include the knotty issue of trade and labour standards, increasing “transparency” within the WTO, and improving decision-making within the institution.<sup>7</sup>

### Defusing the labour standards debate

The relationship between trade and labour standards has been a highly contentious issue in the WTO since the United States first proposed the establishment of a WTO working party. After some 15 years of unresolved debate, one may wonder whether time will ever be ripe for dealing with this issue in the *formal* part of the WTO's work. Now, as before, the question is not about the intrinsic importance of labour standards, about which there is no doubt: it is, rather, about the most relevant and effective way to promote the observance of internationally agreed labour standards.

The majority of developing country governments question the sincerity of the labour rights concerns expressed by advocates of a formal trade–labour link in the WTO. These governments believe that a desire to protect high-wage manufacturing jobs from lower-wage competition is the primary motivation for industrial country pressure on this issue. Developing countries are also convinced that any discussion of the trade–labour nexus inside the WTO is bound to evolve into formal negotiations that will, ultimately, culminate in the use of the WTO's enforcement authority to curb their exports. As a result, developing nations—the countries whose labour practices would, presumably, be subject to the most intense scrutiny—refuse to support the creation of a trade–labour working group within the WTO, let alone the incorporation of labour standards in the institution's legal provisions—the so-called “social clause.” Indeed, developing country attitudes on the issue seem to have hardened over the past few years.

The campaign to make labour a formal part of the WTO's work programme has poisoned the negotiating environment for a variety of other important WTO issues, including some that matter a great deal to the United States. Before and during the Seattle Ministerial, a large number of developing countries appeared to support a negotiating strategy under which their agreement to support the launch of a new global round would ultimately be contingent upon agreement by the United States and others to drop the labour rights issue. Although there were, of course, other preoccupations on the part of

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## 96 Addressing Global Governance in the WTO

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poorer nations, no other single issue has acquired this “make or break” status in developing country calculations on a new trade round. From this point forward, unless it is taken off the WTO docket and moved to a different venue, the labour standards issue will pose a major obstacle to further trade liberalization, in which all WTO members have a stake.

In the near term, multilateral discussions of labour issues probably can be more productively and effectively addressed outside of the WTO. Even if differences in labour standards and practices are believed to confer certain unfair competitive advantages, those standards and practices will ultimately much more likely respond to *development* policy than to *trade* policy. Even if the WTO can enforce its agreements through a dispute settlement system that can authorize the imposition of compensatory trade sanctions, the system is likely to be more effective in changing trade policy than as a tool of economic and social reform.

There are only two reliable long-term ways to help developing countries improve wages, labour standards, and their enforcement. The first is to help them to achieve higher and more equitable growth, which will lift wages; and the second is to provide technical assistance and financing to trade unions to strengthen their organizing efforts, and to government labour authorities to bolster legal regimes and enforcement capabilities.

Labour rights do indeed belong on the international agenda, both in their own right and because it is not possible to argue that labour practices and labour standards do not impact trade, and vice versa. But they need to be handled by an institution with the competence and mandate to address them with the seriousness they deserve. The International Labour Organization (ILO) is the obvious candidate. It should be strengthened, and receive the support necessary to carry out this task.

Tackling the trade–labour issues would clearly benefit from a coordinated programme of research and multilateral dialogue among key stakeholders. Such a process need not take place in the WTO for it to be effective. During the Seattle Ministerial, the European Union had proposed the initiation of trade–labour discussions in a forum that would have been jointly supported by the sec-



retariats of the WTO and the ILO but would not have a formal constitutional tie with either institution. Developing country governments had expressed some willingness to consider the EU proposal before the Ministerial collapsed. That proposal should be revived.

Discussion of trade and labour issues outside of the WTO would stand a better chance today of narrowing gaps in the understanding of key facts and building common ground on potential multilateral steps than would talks within the WTO, where developing countries remain in a defensive crouch. A discussion of trade-labour issues outside of the WTO appears to be all the multilateral traffic can bear at this point, in any case, and advocates of a WTO trade-labour discussion should be willing to settle for it. If their arguments have merit, they will make headway with their opponents. One can even imagine that, over time, the protagonists in this debate will be able to agree on the scope of a subset of trade-labour issues that would be appropriate for formal WTO negotiations.

### Increasing “internal” and “external” transparency

Some developing country governments and non-governmental organizations are concerned about the “transparency”—the openness—of decision-making in the WTO. Their dissatisfaction has become a point of controversy within the organization.

It must be said that a considerable number of developing countries—large and small—have long been at the heart of GATT and WTO decision-making. In many cases, involvement has been a simple reflection of the skills and engagement of their Geneva representatives. Nevertheless, too many developing countries see themselves partially or wholly excluded from key WTO activities through deficient “internal” transparency. They believe that, notwithstanding the WTO’s extensive schedule of formal committee and working group meetings, important matters are routinely discussed and decided in small, informal gatherings to which they are not invited or in which they lack the staff or expertise to participate. For some developing nations, the WTO often has the appearance of a “black box,” an institution from which decisions affecting their interests emerge in a mysterious and unaccountable fashion.

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**98 Addressing Global Governance in the WTO**

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Civil society groups also consider the WTO opaque. But their focus is on so-called “external” transparency—the ability of the public to obtain information about, and comment on, the WTO’s deliberations. NGOs object to the remaining restrictions on the public circulation of secretariat background papers, meeting agendas and minutes, and submissions by governments and others to dispute proceedings. They want dispute panel rulings to be distributed more rapidly—as do some governments—and some propose that NGOs be permitted to submit *amicus* briefs to dispute panels.

The WTO has taken modest but useful steps over the past few years to expand the scope of information about its activities available to the public and to give civil society groups opportunities to exchange views with secretariat officials and national delegations. But the chief transparency demands of the NGOs have been staunchly opposed by developing country governments, principally because they view the interests of many of those stakeholders, particularly with respect to environmental or labour matters, as inimical to theirs. They are concerned that influential civil society groups are more effective than they are in working the WTO system. Many developing country WTO delegations are, indeed, outnumbered by the Geneva-based staffs of a number of NGOs, and some NGOs have closer links with industrial country WTO delegations than do developing country delegations.

One key to advancing both the WTO transparency concerns of civil society and the effectiveness of the WTO as an institution is to take steps to strengthen developing country capacities to participate in the WTO’s proceedings. If these countries felt themselves better able to promote their interests in the WTO they might be more comfortable granting external stakeholders increased access to the organization. Enhancing developing country confidence in the WTO, therefore, may be a prerequisite for enhancing civil society confidence in the WTO.

This argument reinforces the importance of Director-General Moore’s campaign, launched after the Seattle Ministerial, to substantially boost budgetary commitments for technical assistance to developing country WTO members. Developing countries need assistance in a wide variety of trade-related areas. They already ben-

efit from substantial programmes organized by the WTO and a broad range of other multilateral and regional institutions. But they clearly need far more. Further assistance geared toward improving capacities to formulate trade strategy, to negotiate, to coordinate with like-minded countries, and to understand WTO rules and obligations would be especially useful in changing developing country perceptions of the balance of influence within the organization. Unfortunately, the response of industrial country WTO members to the Director-General's appeal so far has been disappointing.

### Improving decision-making in the WTO

Significant changes will be needed in WTO decision-making procedures, not only to address developing country grievances but to enhance the organization's ability to conduct its business efficiently.

In her statement announcing the failure of the Seattle meeting, US Trade Representative Charlene Barshefsky put the matter quite bluntly, saying, "the WTO has outgrown the processes appropriate to an earlier time."<sup>8</sup> According to chief EU trade negotiator Pascal Lamy, events in Seattle suggested that "the [negotiating] process itself has to be reassessed and maybe rebuilt."<sup>9</sup> These sentiments were echoed in comments made by many other senior trade officials.

The crux of the problem is that the consensus-based decision-making system unofficially adopted at a time when the GATT had just a couple of dozen members has become unwieldy in an organization of almost 140 members. If consensus is to remain by default the preferred mode of decision-making—and there is no reason to believe that WTO governments will accept any other approach, especially one involving the wider use of voting—new mechanisms for improving the effectiveness and speed of consensus-building must be adopted.

Some variant of an executive committee arrangement could be the most promising mechanism for balancing decision-making efficiency and the requirement of consensus. The collapse of the Seattle Ministerial has prompted several proposals for an executive committee system. They deserve careful consideration and discussion by WTO members.

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**100 Addressing Global Governance in the WTO**

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Under such a system, the majority of WTO members would delegate authority to a group of roughly two dozen governments to work on their behalf on matters before the General Council, both between and during Ministerial meetings, and other formal sessions. The executive committee's role would be strictly limited to consensus-building on negotiating frameworks and solutions to specific problems. The executive committee would not have authority to make final decisions on behalf of other WTO members. All WTO members would still need to discuss and sign off on executive committee agreements. But if it were balanced in its composition, accountable, and trusted by WTO members, the executive committee should be able to expedite decision-making by the full membership.

The membership of the executive committee would have to be representative, and should reflect a combination of geographical balance, importance to the multilateral trading system (as measured by trade volume), and caucus size (as measured by the number of countries in a particular income grouping). A handful of major trading nations would have their own seats on the executive committee, but most nations would be represented by countries with which they have regional or economic ties. The members of these groupings would decide amongst themselves which delegation would assume the grouping's seat, a choice that might vary from meeting to meeting, depending on the subject matter.

One recent exercise came up with a roster of 20 country and regional members.<sup>10</sup> If a plausible executive committee can be designed with just 20 members, the challenges of finding a workable formula should not be insurmountable. Indeed, there are real world models for this sort of arrangement. A geographically and developmentally diverse group of finance ministers, the so-called "G-20" has held out promise of productive discussions on reform of the international financial architecture. It may offer a helpful starting point for a discussion of a WTO executive committee.

Why should either developing country WTO members or Quad governments support an executive committee arrangement? The answer is simple. The interests of both sets of countries are not served by the status quo. Recent events suggest that, without some improved means of building consensus, future WTO negotiations

are likely to be, at best, less productive and slower than they have been in the past, and deadlocks are likely to be more common.

The industrial countries will not be able to dominate trade discussions as they have in the past. An executive committee would provide Quad countries more assurance that trade liberalization could move forward. And, for the poorer developing country members, an executive committee would offer something that the current Green Room system does not: more hope that their concerns will be weighed in the WTO's most sensitive deliberations.

At present, the influence of this large group of underrepresented poor nations over WTO affairs is almost exclusively defensive or negative in character; it derives largely from their capacity to obstruct and oppose consensus. Countries wishing to advance a positive negotiating agenda need to engage with other WTO members in a more intensive and sustained manner. An executive committee offers a mechanism for that kind of engagement.

The final step that member governments must take to strengthen the WTO is to increase the institution's budget and the size of its staff. When the WTO agreements were being negotiated, nobody anticipated how active the dispute settlement body would be, or how large would be the demand for technical assistance. The WTO is by far the smallest of the Bretton Woods institutions. Its overburdened staff is unable today to respond to all member country requests for information or assistance. Rhetorical support for the WTO by some of its richest members has not been matched by resource contributions. The organization's staff does an astonishing amount with very little; several million dollars more funding would enable it to offer an even more impressive programme of research, consultation, and technical assistance. It should do so under an effective and efficient "integrated framework" with related institutions.

## The WTO in the system of global economic governance

There is clearly much that WTO members can do, acting largely through their trade ministries, to make the WTO a more agile deci-

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## 102 Addressing Global Governance in the WTO

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sion maker and to give key government and civil society stakeholders more confidence in its work. But there is just as clearly also a limit to what WTO members can do *within* the organization itself. If the challenges that face the organization are to be understood and fully addressed, the WTO's place in the larger system of global economic governance will have to be considered.

It is obvious to many observers that the development of the world economy is outpacing the capacity to govern it, at both the national as well as the international level. Inadequate global management makes it harder for governments and countries to take full advantage of the opportunities of globalization. It also threatens political support for an open world economy. More effective management, in turn, will require new policies, institutional reform, and a leadership strategy consistent with the challenges ahead.

Governments currently have to deal with the challenges of the twenty-first century through a set of institutions designed for the world that emerged after World War II. It is important to recall, however, that there was an underlying logic to the design of the post-war economic system. What we might call the "logic of 1945" was no less essential to the success of the world economy than were its formal institutions and rules.<sup>11</sup>

Following the "logic" of 1945, the key institutions established after World War II were each given a distinct role in a single overarching mission: to promote growth and stability through the progressive liberalization of economic activity. The task of the International Monetary Fund (IMF) was to promote commerce by helping to maintain financial stability. The World Bank was responsible for financing the reconstruction of war-damaged economies and the development of capital-constrained countries. And the GATT, an agreement that ultimately evolved into an institution, was designed to expand trade through the elimination of tariffs and other trade barriers. Each of these key institutions responded to a specific perceived failure in the management of international economic relations between the wars.

Post-war leaders were convinced that a liberal international order would maximize international economic stability and growth. But they were concerned that the domestic impact of liberalization could

undermine political support for a liberal international system. The logic of 1945 emerged from this concern. It held that, to be successful, international liberalization had to be “embedded” in social compacts in which governments provided for the social welfare needs of their citizens in exchange for public support for an open world economy.<sup>12</sup>

At the heart of the logic of 1945, then, lay a historic compromise between international liberalism and domestic interventionism. Examples of this compromise could be seen in national measures to cushion the impact of the open world economy and in international rules that permitted countries to opt out of selected liberalization commitments. The GATT, for example, permitted certain “safeguard” actions to protect domestic welfare goals, such as current account stability. Controls on cross-border capital flows were commonplace, as national governments sought to defend the autonomy of domestic macroeconomic policy. The balance of payments support provided by the IMF—*international* intervention to stabilize *national* economies—also was consistent with this historic compromise, as was the establishment of the World Bank as the source of lending initially for reconstruction and then for development. (The ILO, which was established after World War I, was already responsible for labour conditions and employment.)

Two other convictions were shared by post-war leaders. One held that a sound international economy required the widest possible inclusion of nations from the ranks of the war-damaged and former enemies. The other held that national governments were the only international actors of any consequence, and that, therefore, economic diplomacy would be reserved for them and for the international economic institutions they controlled.

The impact of globalization has made the “logic” of the post-war period obsolete. This is not the place to argue the pros and cons of globalization. The important point is that it is now obvious that, in a variety of ways, the political authority of governments no longer corresponds to the geography of the markets and production networks in which firms and workers now operate.

When looked at from this perspective, it is apparent that the WTO is suffering from governance deficits and leadership deficien-

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**104 Addressing Global Governance in the WTO**

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cies at the global level—and that it is not alone in that regard. The weakness of other multilateral institutions and the inadequacy of existing decision-making forums have increased the demands on the WTO to deal with issues not heretofore within its mandate.

Labour and environmental issues are the two most notable cases. As noted earlier, pressure for the inclusion in trade agreements of provisions on labour standards and the environment has been firmly opposed by developing country governments. The resulting tensions have damaged the WTO's effectiveness and played a significant role in stalling further liberalization efforts. These pressures have been brought to bear on the WTO not only because of the attraction of its unique enforcement power, but also because the institutions that might be expected to deal with labour and environment issues either do not exist or are weak.

On paper, the ILO should be the preferred institution in which to pursue discussion, research, and action designed to improve labour rights protections worldwide. It has considerable staff expertise on these issues, a unique tripartite governing structure that includes representatives of each of the main stakeholder groups (trade unions, business, and government), and an established programme of technical assistance on labour rights enforcement. Contrary to what many believe, the ILO even has enforcement power, although its system is certainly not as strong as the WTO's because it does not have the power to impose trade sanctions. But governments and trade unions generally view the ILO as an ineffective institution, and the ILO has, it must be admitted, not done enough to earn their confidence.<sup>13</sup> This has prompted labour advocates to turn their attention and their hopes to the WTO, whose only means of addressing the enormously complicated challenge of improving labour standards would be the threat or application of punitive trade sanctions.

Similarly, environmental activists have looked to WTO trade agreements for help in enforcing environmental standards that are not otherwise covered by environmental agreements. Their lobbying has prompted proposals for the creation of a "world environmental organization," a global institution with the power to enforce a range of environmental agreements.<sup>14</sup> Doubts about the prospects for such an organization have led to calls for the adoption of international



agreements covering individual environmental problems, each with its own enforcement mechanisms, possibly even providing for the imposition of trade sanctions. Several such agreements already exist, but pressure to put the WTO in the service of environmental enforcement has not diminished.

As noted previously, pressure from environmentalists and others also is pushing the WTO in precisely the opposite direction, further complicating efforts to chart a course for the organization. In the view of some activists, as well as some of the most committed free-traders, the WTO has already been given excessive jurisdiction over issues that would have been better left to other multilateral institutions or decision-making mechanisms or to national governments. Environmentalists worry, for example, that WTO dispute panels are setting international environmental policy through their rulings. Some free trade advocates believe that intellectual property rights issues should not have been introduced into the WTO through the TRIPS agreement. In these and other areas, however, where there is a demand for multilateral policy-making, competent alternative institutions to the WTO do not exist.

The political pressures on the WTO and the weaknesses or absence of other institutions to deal with these issues highlight the need for a political process to allocate institutional responsibilities. Many issues can plausibly be described as “trade related,” but unless its mission is radically changed the WTO will be well equipped to deal with only some of them, or certain portions of some of them.

Where, then, are decisions to be made about which issues should be the business of the WTO (and the national trade ministries that guide its work) and which should not? Certainly, the WTO itself cannot make those decisions, because these are ultimately matters of institutional competence, and, as in any well-managed system, effective decisions on institutional role and missions can be made only at a higher political level. But those discussions are not taking place and decisions are not being made. That has given well-organized advocates of various issues or causes ample opportunity to engage in “venue shopping.” Because of its ability to levy trade sanctions, the WTO frequently has been the venue of choice.

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**106 Addressing Global Governance in the WTO**

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Other key international economic institutions are suffering from the same deficiencies in multilateral governance. Over the past decade, the IMF and the World Bank have each come under simultaneous pressure both to expand and to contract their mandates. The Fund has been given a steadily expanding role in the prevention and management of financial crises, but it is also being pressed by a number of thoughtful critics to hand over some of its development-related lending to the World Bank.<sup>15</sup> The World Bank has been criticized for taking on too many issues (often with the encouragement of its major stockholders), and the division of labour between the World Bank and its regional counterparts is coming under increasing scrutiny. The current mandates of the institutions overlap in a variety of areas, wasting resources and perhaps undermining the effectiveness of both institutions. Every couple of years, the leaders of the Bank, the IMF, and the WTO pledge intensified collaboration on development-related matters, but their work with each other and with other organizations (e.g. UNCTAD or the ILO) has been disappointing. In June 2000, for example, the three institutions themselves concluded that their high-profile collaborative effort to deliver improved trade-related assistance to the world's least developed countries—the so-called “Integrated Framework”—had performed well below expectations.<sup>16</sup>

Weak or non-existent institutions, overlapping and ill-defined mandates, inadequate organizational cooperation, and the absence of a mechanism for deciding who does what—these are the global governance problems that are burdening the WTO and undermining the effectiveness of other important multilateral institutions and policy initiatives. But the impact of this “global governance deficit” is being felt even more deeply. The globalization of economic activity has outpaced the efforts of national and international policy makers to redraw the rules and standards necessary not only to ensure the stable and equitable expansion of markets, but also to deal with the economic and social dislocations that are inevitable in a globalized world economy. This gap between globalization and policy can be seen in the difficulty with which global financial authorities responded to the financial crises of 1997–1998 and the ongoing struggles of governments to adapt trade, intellectual property, and other laws to electronic commerce.

### A Globalization Summit

If the promise of a global economy is to be realized, and the perils of globalization minimized, the existing economic, social, and political institutions will need some renovation, redirection, and a clearer division of labour. They also will require much more financial and political support than they now receive from some countries.

There is currently no supra-institutional decision-making process guiding such an effort. There is a need, therefore, for some high-level process to determine the appropriate division of labour among existing multilateral institutions, to decide when new organizations or capacities need to be created, to supervise the strengthening of existing institutions, to assign issues or problems to particular institutions, to adjudicate jurisdictional disputes, or to enforce cooperation among organizations.

These tasks clearly require concerted, broad, and high-level political leadership. Central bankers and ministers of trade, finance, labour, environment, and development must all play advisory roles, but only heads of government possess sufficient authority and prestige to make the necessary decisions. Existing mechanisms for organizing high-level economic leadership are inadequate. The G-8 is too narrow in its membership. The annual meetings of the World Bank and the IMF bring together the world's finance ministers and central bankers, but their discussions are preoccupied with narrow finance issues. WTO Ministerials are devoted solely to trade issues. The yearly gathering of heads of state for the opening of the UN General Assembly is too ritualized.

We propose a new mechanism for marshalling global economic leadership: a carefully designed summit meeting of heads of state—a Globalization Summit. The Globalization Summit would be dedicated to addressing the key governance challenges associated with globalization. The meeting would not be a negotiating session and would not supersede or replace any existing forum. It would involve a structured but informal discussion.

The goals of the summit would be to identify areas of common concern and to try to reach consensus on how to respond to them. The discussion would include an assessment of the adequacy of

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**108 Addressing Global Governance in the WTO**

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existing multilateral institutions and agreements. At the conclusion of the summit, the participating heads of state would decide whether to reconvene again. We believe they would find such a meeting sufficiently useful that they would choose to meet again. But the widest possible participation in the initial meeting requires, we think, that no government be asked to make a long-term commitment to a process of unknown value.

To be successful, the countries invited to participate in the Globalization Summit must be broadly representative of the world economy. Although it might be desirable, in principle, for the leaders of all the world's governments to take part in the summit, a gathering of that size would be a logistical nightmare. Two dozen heads of state would perhaps be the ideal size for such a meeting—large enough to allow broad international representation, but not too large to prevent genuine give-and-take. In addition to heads of state, it would probably also be useful to include the heads of the World Bank, the IMF, the WTO, and the United Nations.

Which countries would participate in the Globalization Summit? Several selection schemes could be explored. One approach might be to use the memberships of the development and international monetary and financial committees of the World Bank and IMF as a guide. These include most of the major economic powers, plus constituency representation for smaller economies. Another option would be to include three groups of about eight nations each: all or most of the major industrialized countries; leaders of emerging market nations; and leaders of least developed countries. Priority must simultaneously be given to ensuring roughly equal participation from the world's five major geographic regions: Africa, Asia and the Pacific, Latin America and the Caribbean, North America, and Europe.

The precise agenda of the summit would be determined by the participating governments, but a committee of independent experts would be charged with preparing background material and a proposed agenda. The material prepared by the experts group would be used to structure the discussion. It might also include recommendations for action. This structured approach to discussion has been used successfully before, most notably in the context of Asia-Pacific Economic Cooperation (APEC).

We are realistic about the prospects for a gathering of this kind. A single meeting of a couple of dozen heads of state will not be able to make decisions on all of the difficult governance issues discussed here. But we also believe that a meeting of this kind would call forth an immense research and analytical effort on the part of specialists and institutions worldwide. Some of that work would feed into the preparatory process for the meeting. We also would expect that the run-up to the meeting and the meeting itself would generate intense media interest and public discussion, improving global public understanding of economic governance challenges. And if, as we expect, the summit initiates an international debate over how to reform the system of global economic governance, the first summit will probably not be the last.

The main message of this chapter is that the WTO has been very successful but that changes need to be made to increase its effectiveness in order to meet the challenges posed by globalization. It is important to understand, however, that the WTO is only one part of a system of global governance that now needs refurbishment and a clear definition of the functions of the various multilateral institutions. Only a combination of internal reforms and changes in the patterns of global governance will ensure that the WTO achieves its full potential.

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## Notes

1. World Trade Organization, "Some Facts and Figures: Stats for Seattle," November 1999.
2. Development Division, World Trade Organization, *Background Note: High Level Symposium on Trade and Development*, Geneva, 17–18 March 1999.

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## 110 Addressing Global Governance in the WTO

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3. World Trade Organization, "Some Facts and Figures: Stats for Seattle."
4. Committee on Trade and Development, World Trade Organization, "Participation of Developing Countries in World Trade: Recent Developments, and Trade of the Least-Developed Countries," WT/COMTD/W/31, 17 September 1997, p. 5.
5. Ibid.
6. William A. Diamond and Michael M. Hart, "Post-Modern Trade Policy: Reflections on the Challenges to Multilateral Trade Negotiations after Seattle," unpublished paper.
7. We focus here on labour standards, and not on the link between trade and environmental standards, because the debate surrounding the latter appears to be much further advanced, including in the WTO. For a thorough analysis of leading trade and environment issues, see Gary P. Sampson, *Trade, Environment, and the WTO: The Post-Seattle Agenda*, Washington, DC: Overseas Development Council, 2000.
8. "WTO Seattle Ministerial Fails: Talks to Resume at a Later Date," *WTO Watch* (Bureau of National Affairs), 3 December 1999.
9. Ibid.
10. The European Union, the United States, Japan, the People's Republic of China and Hong Kong (China), the Association of South East Nations, Canada, the European Free Trade Area and Turkey, Korea, Mexico, Australia and New Zealand, the Central European Free Trade Area, North Africa and the Middle East, South Asia, MERCOSUR (Southern Cone Common Market), the Andean Community, Israel, South Africa, the Central American Common Market (CACM) and the Caribbean Community (CARICOM), and two sub-Saharan African groupings. See Jeffrey J. Schott and Jayashree Watal, "Decision Making in the WTO," in Jeffrey J. Schott, ed., *The WTO after Seattle*, Washington, DC: Institute for International Economics, 2000.
11. The notion of the "logic of 1945" was developed by Ethan B. Kapstein in his book *Sharing the Wealth: Workers and the World Economy*, New York: W.W. Norton, 1999. Peter D. Sutherland discusses the relevance of the "logic of 1945" for contemporary global economic management in his 1998 Per Jacobsson Lecture, "Managing the International Economy in the Age of Globalisation," Washington, DC: Per Jacobsson Foundation, 1998.
12. John Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," *International Organization*, 36 (2), Spring 1992.
13. It should be noted, however, that the ILO Director-General, Juan Somavía of Chile, who assumed office in 1999, has provided dynamic leadership for the ILO and is taking promising steps to make it a more effective institution.
14. The most prominent advocate of a world environmental organization thus far has been French Prime Minister Lionel Jospin. Detailed proposals have been offered by Daniel Esty, of Yale University, and several other trade and environmental specialists.
15. "The Future Role of the IMF in Development," report of an Overseas Development Council task force, Washington, DC: Overseas Development Council, April 2000.

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**The Role of the WTO in Global Governance 111**

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16. "Joint Statement on the Mandated Review of the Integrated Framework for Trade-Related Technical Assistance to Least-Developed Countries (IF) by the Core Agencies (IMF, ITC, UNCTAD, UNDP, World Bank, and WTO)" and "Heads of International Agencies Agree to New Approach on Trade-Related Technical Assistance for Least-Developed Countries," press release, 6 July 2000. The three other organizations sponsoring the Integrated Framework are UNCTAD, the UN Development Programme, and the International Trade Centre (itself a joint initiative of the WTO and UNCTAD).



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