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A Club No More—The WTO after Doha

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Since its inception the GATT, and subsequently the WTO, has been able to operate in a fashion that is more consistent with a club than an inclusive organization that encouraged the active participation of all its members. The WTO Ministerial Meeting in Doha in November 2001 appears to have been a watershed in how the organization functions, and the club model may no longer be appropriate. While it is not yet clear what will replace the previous model, it is apparent that decision making will be much more diffused and the interests of a much broader spectrum of member countries taken into account. The central question is whether or not the transformed organization can still serve the interests of those who were previously able to dominate the club—the major trading nations. If it cannot, they may look for another club that will better serve their purposes, and all the effort that has gone into building a well functioning multilateral trade regime will have been for naught. Those members that worked so hard to end the club may not reap the benefits they expect unless they are prudent in how they use the power that they now hold within the WTO.

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When the GATT organization was first started...it was felt that the GATT was a club inhabited by diplomats of impeccable reputation who would ensure that its affairs would be conducted with all seemly propriety. Should any unhappy differences arise they would be settled privately according to the feeling of the general consensus.¹

The impetus for the institutionalization of international relations that was manifest in the latter part of the Second World War largely arose out of the efforts of a few countries—particularly the United States and the UK but also Canada and some other Dominions in the British Commonwealth. The *grand design* for the post-war world order was to establish institutions that would eliminate or dampen the sources of international military and/or economic conflict. These institutions included the United Nations (political conflict), the International Monetary Fund (strategic devaluations), the World Bank (income disparities) and the International Trade Organization (beggar-thy-neighbour trade wars). Of course, the International Trade Organization was stillborn and one of its sub-agreements, the General Agreement on Tariffs and Trade (GATT) became the *de facto* multilateral trade institution.

The world has changed radically in the half century since the GATT was signed on 30 October 1947. The original GATT had only 23 signatories. When the organization came into being on 1 January 1948, there were only 10 countries that had ratified the agreement. Of these, only Cuba and Haiti were what would be considered developing countries today. Of course, at that time the concept of a developing country was not well articulated or accepted, particularly among members of the Latin American diplomatic class who were, and considered their countries to be, European in outlook. By the end of 1950, there were 28 members—10 of which are now considered developing. The majority of those were Latin American. Newly independent India, Sri Lanka, Burma and Indonesia had also acceded.² The rest of the Members were developed countries. The 1949 Annecy Round had only 13 participants. The 1951 Torquay Round had 38 participants. The Dillon Round, which ended in 1961, had only 26. The point is that for a long time the GATT was comprised of a small group of largely developed countries (in outlook even if not in fact in some cases). It was constituted, its rules set and its organizational procedures put in place long before the wave of decolonization that took place in the 1960s. In particular, entry into the organization was controlled by the existing members and new entrants had to agree to the existing rules. Thus, while the GATT was multilateral in that all countries were encouraged to join, conditions of membership were restrictive and the

accession process far from assured—China’s fifteen-year battle to join being the most obvious recent example (Kerr and Hobbs, 2001).

Thus, the network of international rules of trade had many characteristics of what in economics is termed a “club good” and the GATT those of a “club” that administers a club good. According to Cornes and Sandler (1986, p. 159):

A club is a voluntary group deriving mutual benefit from one or more of the following: ...the members’ characteristics, or a good characterized by excludable benefits...the last item, which we term *club goods* [original emphasis]... Clubs must be voluntary; members choose to belong because they anticipate a benefit from membership. Thus the utility jointly derived from membership and the consumption of other goods must exceed the utility associated with nonmembership status. This volunteerism serves as one factor by which to distinguish between pure public goods and club goods. In the case of a pure public good, volunteerism may be absent since the good harms some recipients (e.g., defence to a pacifist, fluoridation to someone who opposes its use). However, harm could never befall a club member, at least usually not more than once, because the right of exit is always available!

Second, clubs involve sharing, whether it is the use of an impure public good or the enjoyment of the desirable attributes of the members. Sharing often leads to a partial rivalry of benefits as larger memberships crowd one another, causing a detraction in the quality of the services received.

It is important to carefully define the impure public good that the GATT/WTO administers. The GATT/WTO does not provide free trade or trade liberalization. These “goods” do not have the requirement of excludability to derive a benefit. For example, it is well accepted in economics that unilateral removal of trade barriers can be welfare enhancing for a country. The GATT/WTO is, instead, a political compromise between two types of needs: the need of firms that wish to engage in international transactions to have limits on the ability of governments to impose trade barriers, and the need of governments to, at times, extend protection to domestic vested interests (Gaisford and Kerr, 2001). The benefit from excludability arises from not having to extend member-agreed concessions to those countries which perceive benefits in areas where the political cost for existing members is too high: e.g., to textiles from developing countries. There are, however, considerable shared benefits from having a transparent set of rules for trade and from mutually agreed liberalization over time. The founding-member developed countries and those developed countries that subsequently joined were, to a considerable degree, able to manage the GATT to derive considerable benefits. The initial GATT tariff-cutting

rounds of the 1940s, 50s and 60s are considered a great success. Membership in the successful GATT began to carry considerable prestige.

This leads to the second benefit suggested above that comes from membership in a club—the members’ characteristics. Membership in the GATT became desirable not so much for the benefit arising from the impure public good but rather from the prestige that was associated with it. Acceding to the GATT implied a certain international economic respectability. Similar prestige motives can also be seen in the gradual expansion of OECD membership and the various incarnations of clubs prefaced by G, e.g., G-8, G-20. This was particularly the case with the many newly independent ex-colonies that joined the GATT in the last quarter of the 20th century. For many of these countries, however, the concessions required from GATT membership were well beyond what was politically feasible domestically. The compromise reached was that a new class of membership was created—developing-country status—that did not require the same commitment to market openness that was required of developed members. The implicit compromise reached was that developing countries would allow the existing developed-country members to control the negotiating agenda so that the original, albeit evolving, political compromise remained intact.

In the economic literature these membership hierarchies are recognised as authority structures with memberships that are sometimes designated as “proprietor” and “consumer” (Sorenson et al., 1978). An analogy might be drawn with an exclusive golf and country club that has regular members who are interested in participating in golf and associate members who do not (often) golf but can use the club’s social amenities such as the bar and dining room. The associate members join largely for the ability to associate themselves with the characteristics of regular members.³ Associate membership, however, carries no (or very limited) access to the golf course and no input into the rule making pertaining to golfing activities. To the degree that associate members have access to golfing they simply accept the rules devised by the regular members. Both regular and associate members have an incentive to restrict membership to the “right sort”.

This arrangement appears to reflect the operation of the GATT up to and through the Uruguay Round. For the most part, developing countries demanded little from the GATT. While they received the benefits associated with member characteristics, they appeared to have little interest in participating in international trade and in setting the negotiating agenda. Many developing countries were following protectionist development strategies such as import substitution and had no interest in opening their

economies. Further, influenced by the thinking of Raúl Prebisch, many developing countries did not see their future in expanding market access for traditional resource-based products due to long term declining terms of trade in these products (Clement et al., 1999). In other words, accommodating import substitution was more important than expanding market access. A political compromise was arranged that allowed developing countries to pursue their import substitution policies while allowing developed countries to continue to protect politically sensitive domestic sectors from low-cost imports: e.g., textiles, sugar, etc.

While the GATT's method of negotiating remained relatively unchanged, the international economy was experiencing a number of major changes. An increasing number of developing countries had become disillusioned with the import substitution model of economic development and had embraced, instead, an export led development strategy (Clement et al., 1999). In developed countries, services were becoming the largest and fastest growing sector (Yeung et al., 1999). Further, the proportion of the value of goods comprised of intellectual property had been rising at a rapid rate, largely as a result of the computer revolution, leading to increasing concerns in developed countries over intellectual property piracy taking place in developing countries (Gaisford and Kerr, 2001). It should be remembered that the agenda for the previous Tokyo Round completed in 1979 was set prior to 1973 when these trends were still emerging. By 1986, however, they were moving to the top of the trade agenda. In the Uruguay Round, for the first time, developed countries wanted major concessions from developing countries. In particular, these included the opening of markets for services and international protection for intellectual property. While developing countries were generally opposed to extending international disciplines in these areas, a compromise was reached whereby they would receive increased market access for textiles, a reduction in export subsidies and improved market access for agricultural products, and promises of increased resources for capacity building in the trade area. The WTO and the two new agreements—the General Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS)—were the result. The negotiations were conducted in the GATT tradition, with subset groups working on the texts of various issues, Green Rooms for contentious areas, etc. Powerful sub-groups like the Quad (the United States, the EU, Japan and Canada) set the agenda and shepherded the process. While the concerns of developing countries were addressed, the process was far from inclusive.

Even under the GATT's traditional negotiating structure, the Uruguay Round was very long and extremely acrimonious. The problem with concluding the Uruguay Round, however, was the difficulty finding an acceptable compromise among developed countries. There have been considerable difficulties with implementation of the Uruguay Round commitments, particularly those pertaining to improving market access for developing countries—dirty tariffication, structuring of Tariff Rate Quotas, general foot dragging on textiles—as well as a failure to provide expected levels of international assistance. In short, developed countries found ways to escape or dilute many of their Uruguay Round commitments to developing countries. These issues came to a head at the WTO Ministerial Meeting in Seattle in the fall of 1999 where developing-country members were able to scuttle the movement to a new negotiating round largely over Uruguay Round implementation issues. There was particular criticism by developing countries of their lack of input into the agenda, the absence of inclusiveness in the negotiating process including the failure to even inform members of meetings and, particularly, the exclusive nature of the Green Room process. Notice had been given that there would no longer be passive members in the organization and that the rules of the club had to be changed. With the accession of China, it might be argued that the WTO is no longer a club at all given that almost all countries have now acceded—it is becoming a pure public good (Cornes and Sandler, 1986).⁴

The WTO bureaucracy went to great lengths to ensure that the Ministerial Meeting in Doha would be much more inclusive. Developing-country concerns were the spotlight of the negotiations, particularly intellectual property issues pertaining to public health. There is a strong commitment in the Doha Ministerial Declaration (WTO, 2001, p. 2):

Recognizing the challenges posed by an expanding WTO membership, we confirm our collective responsibility to ensure internal transparency and the effective participation of all Members.

By all accounts, the Doha process operated reasonably well and the work agenda reflects the major interests of both developing and developed countries. The real test of the new inclusive system will be the next round of negotiations.

There appear to be two major changes that have been manifest over the Seattle-to-Doha reorganization. The major trading nations no longer control the agenda-making and the negotiating process will be broad based. The loss of control of the agenda could mean that the WTO can be diverted from its main task of making trade rules and redirected toward other endeavours such as promoting international development—turning some of the golf fairways into tennis courts or shopping malls, to return to the

country club analogy. A major problem will arise if the organization no longer serves the interests of the major trading nations—remember they formed the club originally to share the benefits of the impure public good that the rules of trade comprise. The major trading nations receive the greatest benefit from a well functioning set of trade rules. If the rules of trade become encumbered with other agendas that reduce their efficacy, then the shared benefits received by the major trading nations will decline. A country club that no longer serves the interests of those who wish to golf will soon find that those members who are interested in golf will look elsewhere.

Loss of control over the agenda may also force developed countries to face demands for concessions that are beyond the acceptable range within their collective domestic political compromises. This is somewhat analogous to crowding in a club model. Without the rationing method implied by control of the agenda, the benefits will be dissipated. Again, the club will no longer serve the needs of the major trading nations. A crowded golf club where there are long delays no longer provides the members interested in golf the benefits they expected when the club was set up.

Making the negotiation process broad based may also considerably increase transaction costs. According to Cornes and Sandler (1986, pp. 192-93),

Part of the expense of operating a club includes transaction costs; billing, administration, and meetings all require resources. Most of the transaction costs are independent of the level of use and provision; however, others may vary with membership size or provision. For example, larger memberships need bigger meeting rooms and may entail larger administration costs...[T]he level of maximum utility will be reduced owing to these additional expenditures.

The major transaction costs in negotiations are those associated with time. In addition to allowing control of the agenda, the sub-group system used in previous GATT/WTO negotiations considerably reduced the transaction costs associated with the negotiation process. In particular, it overcame the hold-out problem that can arise when it is necessary to achieve consensus. If the new inclusive negotiating process adds greatly to the transaction costs associated with negotiations, and slows the process of reaching conclusions, the net benefits arising from the WTO will decline, particularly for the developed economies that derive the most benefit. They may begin to rely more on regional trade organisations to achieve their trade goals or begin to look for new clubs that will produce higher net benefits. The WTO bureaucracy needs to pay particular attention to this issue and must find inventive ways to maintain the transaction cost efficiency associated with the previous exclusive negotiating

mechanisms while at the same time finding ways to satisfy the Members' desire for inclusiveness.

All indications are that the structure of the WTO club has changed radically over the Seattle-Doha interim. In fact, it may not be a club any more. What must not be lost sight of is the rationale for the creation of the GATT/WTO club in the first place: the shared benefit of an impure public good. If the organization can no longer deliver that benefit to those Members that have the greatest stake in international trade, they may lose interest and seek alternative venues. Developing countries have a great deal to gain from the WTO but only if the major trading countries remain committed to it. Developed countries have a great deal invested in the WTO and appear to still have a strong commitment to it. The real challenge will be for the broad membership of the WTO to temper the use of their new power within the organization so that they can achieve their goals. That can only be accomplished by taking account of the needs of the major trading nations.

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Endnotes

1. Journal of World Trade Law (Editorial) 15 (6) 1981, p. 489.
2. Southern Rhodesia was also a member but with a white minority government and still a British colony. This discussion does not include the Republic of China which was a founding member but subsequently withdrew.
3. After all a good meal and an amiable bar could easily be enjoyed elsewhere without joining the club. The benefits derived from member characteristics can only be obtained if one is a member.
4. Russia is the last remaining major economy that has not been able to accede to the WTO.

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