

New Approaches to Trade Governance

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At an international conference in Paris in July 2007, former Mexican trade minister Luis Ernesto Derbez remarked that the environment would determine the future of the multilateral trading system. This was a surprising assertion from someone once known as a mainstream supporter of free trade and the international system of rules that govern it. One interpretation of his remark is that humanity is facing a series of grave challenges—including climate change, loss of biological diversity, threats to water sources—that go well beyond the partisan interests of individual states. Addressing these challenges will call on all the institutional ingenuity that society can muster and will require harnessing these institutions to the broader task that these challenges represent. This includes the institutions of international trade—just when, more than ever, they are under scrutiny and attack from many quarters.¹

This chapter will explore how in the last

decade the debate on trade and the trading system has moved from a narrow focus on trade policy and mechanisms to a broader focus on how the system might best contribute to the search for sustainable development. It focuses on the governance of trade and explores what might be done to this governance to bring about the shift that the Mexican minister suggested is needed.

International Trade: Help or Hindrance?

Ever since David Ricardo explained the Law of Comparative Advantage in 1817, it has been an article of faith that international trade is a good thing. Trade contributes to prosperity not only by rewarding the successful trader but by expanding the size of the overall economic pie so that, with good governance, there should be adequate slices for everyone. (See Box 14–1.) Trade contributes

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Box 14–1. Good Governance

Governance can be understood as the mechanisms used to ensure that a system or regime advances smoothly and effectively toward the goal it has set for itself and can deal efficiently and justly with the issues that arise along the way. The basic characteristics of good governance include:

- *Transparency:* People affected by decisions have timely access to accurate and up-to-date information on the issue, as well as information on the positions and proposals of the different parties.
- *Participation:* The right to take part in the debate or decisionmaking process links to the extent a stakeholder has interests at play or will be affected by the decisions.
- *Accountability:* Decisionmakers and the regime

itself are answerable for their actions, decisions, and compromises in terms of the stated goals and objectives as well as any statements and declarations they make about their actions and decisions. Accountability includes access to justice for those with a legitimate grievance. In the case of the trading system, accountability seeks an accommodation with the claims of justice made by those who believe the trading system should support sustainable development.

Where the vision for society is well articulated in goals, objectives, and priorities and are broadly known and supported, the exercise of good governance is comparatively easier. Where the goals and objectives are vague, good governance can be near impossible.

Source: See endnote 2.

to peace by building both mutual dependence and a better understanding of the trading partner's character, culture, and motivations. Conflict among partners that share commercial interests would disrupt trade and hurt their shared economic interests, so they also share a strong incentive to keep the peace.²

Before looking at some of the small print that suggests a more sober view of trade liberalization and its track record, it is appropriate to acknowledge how much of trade theory actually translates into real benefits in practice. International trade has expanded massively since World War II and has accounted for a significant share of the economic expansion that the world has experienced. The gradual lowering of trade barriers in the second half of the last century accelerated both economic growth and the proportion of that growth attributable to trade.

With the expansion of trade, pressure grew to enshrine the rules that would facilitate open trade and prevent backsliding into pro-

tectionism. In a very real sense, it can be argued that the codification of trade rules and the creation of institutions to govern international trade were a response to trade expansion, not the cause of it. The rules and institutions were put in place to ensure that the trading system is as free of conflict as possible. As the perception grows that gross inequalities—or collateral damage to other areas of public policy, such as the environment—can also lead to conflict, the multilateral system is under increasing pressure to address these through the codification of practice and the creation of new ways to prevent such conflict.

Much of the trade expansion since World War II can be attributed to successive rounds of multilateral trade negotiations in the General Agreement on Tariffs and Trade (GATT) and its successor, the World Trade Organization (WTO). These trade negotiations have gradually, round after round, reduced and “locked in” successively lower tariffs and quotas, making them today a small fraction of

what they once were. Further, true to trade theory, a good deal of the growth in trade stems from unilateral decisions by countries to eliminate obstacles without seeking concessions from their trade partners in return or from the disappearance of trade barriers through regional integration arrangements.³

Trade's contribution to peace is also well documented. Violent conflict is significantly less frequent between countries that enjoy robust trade and operate open economies. In region after region around the world, the removal of trade barriers has been matched by the evaporation of armed conflict.⁴

So why does every successive step in trade liberalization appear to be a long, agonizing process in which microscopic advances are followed by long periods of deadlock, where hopes are continually dashed as endless last chances are missed? Why is it that, after six years of negotiation, the current Doha Round of WTO negotiations is stalled, with an increasingly large proportion of experts and observers wondering if it can be revived and concluded at all in the next few years? Why does WTO—an institution built on the unimpeachable principles of non-discrimination, transparency of the conditions applying to trade, and peaceful settlement of disputes—face so much hostility?

The remainder of this chapter explores this basic paradox: Why does such a beneficial thing as trade excite such disapproval?

The Goals of the Multilateral Trading System

Ask a WTO delegate what the goal of trade liberalization is and the likely answer will have a good deal to do with stimulating economic growth. If trade stimulates growth, then liberalizing trade increases the volume of trade and therefore stimulates more growth than would occur otherwise. Economic

growth, however—like trade liberalization—is a means to an end and not an end in itself. (See Chapter 1.) What goal, then, is the trade regime dedicated to reach, against which it must inevitably be judged?

At its origins in 1947, GATT had a highly utilitarian purpose, based on the need to raise standards of living and to ensure full employment by “developing the full use of the resources of the world” and expanding trade. The WTO, established on 1 January 1995, is an altogether different animal. Its agreements focus less on what happens to manufactured goods at the border than on the trade impacts of domestic policy. Further, the key agreements that make up the WTO package—including a revamped GATT—are part of a “single undertaking” in which decisions are taken by consensus. GATT member countries that became the initial WTO members and the countries that joined the organization since then are all bound by these rules (with minor exceptions). Countries are either in or out of the multilateral regime, and it is increasingly impossible to remain out of it. Being part of the system requires accepting the decisions of the WTO's dispute settlement system, which are not only binding but enforceable in the most extreme cases through economic sanctions.⁵

No doubt thanks to the high political profile of the environment at the 1992 Earth Summit in Rio, the Marrakesh Agreements that established the WTO articulated an ambitious and both socially and environmentally responsible goal for the trading system. The governments who signed on agreed in the Preamble “that their relations in the field of trade and economic endeavour should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, and expanding the production of and trade in goods and services,

while allowing for the optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment and to enhance the means for doing so."⁶

They further recognized the particular need for a trading system that boosts the development efforts of the poorer countries by noting "that there is need for positive efforts designed to ensure that developing countries, and especially the least developed among them, secure a share in the growth in international trade commensurate with the needs of their economic development."⁷

So the goal of the multilateral, rules-based trading system managed by the WTO is to harness trade to the task of achieving sustainable development, ensuring that trade openness provides a boost to development in the less-advanced countries, and recognizing the distinct needs of countries at different stages of development.

Unfortunately, while the trade disciplines contained in the WTO texts are binding, enforceable, and set out in precise language, the legal status of the Preamble agreed to in Marrakesh was at first unclear. One leading negotiator of the agreement has remarked that the Preamble was used to "park" notions held to be important by one government or a group of countries but around which no consensus could be built. Most trade lawyers would argue that the Preamble sets tone and context and has exhortatory value but is unenforceable. This view is not shared by the WTO's own dispute settlement system, however. The Appellate Body, for one, has made clear in a few landmark cases that the Preamble is to be regarded as part and parcel of the legal agreements that bind members.⁸

It is important to note here that the environmental community has been among those

most suspicious of the multilateral trading system and has often been in the front lines of protests against the North American Free Trade Agreement (NAFTA), the WTO, the Free Trade Area of the Americas, and others. There are several reasons for this:

Extension of free trade reinforces the relative strength of the corporate sector and especially the multinational corporations. This leads to the perception that the trading system is an ally of the corporate sector, which the environmental community continues to distrust.

The trade rules embodied in the WTO appear stronger—and the compliance mechanisms much stronger—than the equivalent environmental rules, whether at the national or international level. When there is overlap and contradiction between the two sets of rules, it is not unreasonable to expect that the trade rules will prevail, especially given that economic policy generally has stronger support than environmental policy.

Attempts to extend trade policy to cover services (such as water supply, forestry, protected area management, and so on) smack of an attempt to privatize what the environmental community regards as public goods. As WTO rules on nondiscrimination appear to question domestic policy decisions such as the setting of environmental standards or the adoption of environmental labels, they appear to threaten hard-won environmental progress and to question the ability of the state to act in accordance with the public good.

Finally, early trade dispute cases decided by GATT appeared to attack the ability of states to harness the power of the market to advance environmental goals. One famous case suggested that the trade rules did not allow the United States to distinguish between tuna caught with massive associated dolphin deaths and "dolphin-safe" tuna, because the two were "like" products under the trade rules and

no discrimination between them was allowed.⁹

Foundations of the WTO Governance Crisis

Governance crises can arise when the gap between what is declared and what is delivered grows too big. This is the case with the WTO if the text of the Preamble is taken to represent a legitimate articulation of the organization's overriding goal. The results of the Uruguay Round of trade negotiations, which ran from 1986 to 1994 and led to the establishment of the WTO, were sold hard to developing countries. While it was recognized that some countries would benefit more than others, the promoters insisted that all countries would be winners. And in recognition of the adaptation challenges they might face, developing countries were given additional time to implement the new agreements. That, it was felt, should be enough. No one accurately assessed the difficulties developing countries would face.¹⁰

It soon became evident that not only were many countries having a hard time adapting to the new requirements, some clearly felt they were losing out. It began to emerge that although trade openness could bring benefits, it tended to do so only where certain basic conditions—institutions, capacity, an efficient customs service, an independent judiciary, a solid banking system, and so on—were in place. Developing countries received scant sympathy when they sought to use WTO mechanisms to obtain help in these areas. The gap between rhetoric and reality was proving hard to bridge.

Despite this, many major trading powers felt they were on a roll and should push further. Less than two years after WTO opened for business, the Singapore ministerial meeting in December 1996 adopted a new agreement on information technology and agreed

to “study” four new topics—investment, competition policy, trade facilitation, and transparency in government procurement—with a view to including them in a later round of negotiations. An attempt to launch that new round collapsed in Seattle in late 1999, but two years later and with none of the developing-country concerns addressed adequately, WTO members agreed in Doha, Qatar, in November 2001 to launch a comprehensive new round of trade negotiations.¹¹

Most developing countries went along in large part because the new round was presented as a “Development Round,” with the goal of delivering a result genuinely positive for poorer countries and correcting some problems inherited from the Uruguay Round. By implication, at least, this suggested recognition of the fact that the promise of the Uruguay Round had proved hollow for many countries. As WTO Director-General Pascal Lamy told the U.N. Economic and Social Council in July 2007: “Trade opening and rule-making are indeed major goals of the WTO. But today a number of the current substantive rules of the WTO do perpetuate some bias against developing countries.” He cited the rules on subsidies in agriculture, for example, which tend to favor industrial countries, along with high tariffs that many of those countries apply to agricultural and industrial imports, in particular from developing nations. “A fundamental aspect of the Doha Development Agenda,” Lamy noted, “is therefore to redress the remaining imbalances in the multilateral trading system and to provide developing countries with improved market opportunities.”¹²

More than six years after it was launched, the Doha Round has come to a standstill, and prospects for an early conclusion appear dim. While few participants question either the robust foundation of trade theory or the benefits of open, rules-based trade, several prob-

lems are increasingly evident:

Trade openness does not, on its own, bring the benefits that trade theory suggests, as they depend on the right conditions being in place. The trading powers have until recently showed little interest in helping poor countries achieve these conditions.

Concerns for equity, environment, and development are largely incompatible with the hard-ball, mercantilist approach to trade negotiations and the culture that this approach consolidates.

Since trade policy and the trade rules shifted their principal focus from border measures to domestic policy and expanded their reach beyond trade in goods, the relationship between trade policy and public policy interests in these areas can no longer be ignored.

Developing countries are increasingly aware of their power and authority and will no longer accept promises of future benefits. They want tangible results, if not down payments in the form of up-front concessions from richer trading powers as a proof of good faith.

So where does this leave the WTO? And is the present impasse a governance crisis? In terms of transparency and access to information—two of the basic criteria of good governance—WTO rates well, at least as far as its members are concerned. The creation of WTO led to a massive increase in public interest in the trading system, and both formal and informal access to accurate, up-to-date information on virtually every aspect of the system's operations is now available to anyone who wishes to receive it.

Participation presents greater challenges. There is widespread agreement that the massive expansion not only of the WTO membership (over 150 countries, twice the size of GATT when the Uruguay Round was launched) but of the number and complexity of the agreements and negotiations has

presented poorer countries—especially the smaller ones—with considerable difficulties. In the normal course of events, some 25 formal meetings take place each week at WTO headquarters. But as many as 19 developing countries, for financial reasons, have no representation in Geneva at all; others have just one or two staff covering all U.N.-related events in Geneva.¹³

This is especially difficult for negotiations, since the interests of developing countries do not divide easily along North-South or regional lines or even according to any particular pattern of interests. And yet it is impossible to envisage delicate negotiation of binding and enforceable economic agreements with 150 players in the room. Some form of representational presence must be used, but it is far from clear how that might be organized. The Doha Round has seen considerable experimentation with interest groupings, with some positive impacts on transparency and inclusiveness but so far without appearing to find the magic solution. To some extent, then, the crisis of the WTO is related to the governance challenge of ensuring adequate participation of stakeholders.

This is particularly true beyond the WTO's primary constituency in the trade policy community—in the wider group of stakeholders in civil society, among consumers and other groups whose interests are centrally affected by the shape and nature of the trading system. While some civil society organizations are having a clear impact on the policy debate, the level of participation and the mechanism to make constructive participation possible are far less than optimal for well-governed trade policy.

The real challenge, however, relates to the third pillar of good governance: accountability. At one level, of course, the WTO boasts of its fine record with accountability. It is very much a member-driven organiza-

tion, and each member is accountable to legislative bodies back home. The crisis relates to WTO's track record in advancing the goals that the founders established for the system, as set out in the Preamble. There is a very real sense in the WTO community—not to mention the wider trade policy community—that the formal structures available do not guarantee accountability in terms of the objectives set for the system. And it is precisely this failure that has led governments and interested observers to question how WTO works and how committed its most powerful members are to finding solutions compatible with the overall goal. Indeed, the WTO has no mechanism to assess fidelity to and progress toward its stated goal. (Although the WTO Committees on Environment and Development were invited to monitor the impact of Doha Round proposals on sustainable development, they have not done so.)¹⁴

An interesting and important exception is the Appellate Body, the WTO's highest "court," which rules on appeals against the findings of Dispute Settlement Panels. As noted earlier, it has invoked the WTO Preamble as evidence that the founders intended the system to support sustainable development, even if the commitment is cast in imprecise terms. It is clear that the Appellate Body has adopted a central position in ruling on the character, purpose, and direction of the system. Beyond that, however, there is little sign that WTO members collectively feel any obligation to correct past decisions that have damaged the prospects for development or the environment.¹⁵

Civil society has also played an important role in insisting that the WTO be held to account for the impact of its rules and decisions on wider public policy objectives. Although civil society has been notable for criticizing the WTO for its shortcomings and in part for opposing any progress toward fur-

ther trade liberalization, it is clear that the net impact of civil society input has been to place the multilateral trading system squarely in front of its responsibility to deliver results that support sustainable development.¹⁶

The Challenge of Respecting WTO Goals

How might the governance challenge best be addressed? It is by now a platitude to decry the negotiated tradeoffs that characterize the WTO culture. It is a culture that saturates the organization, that pervades its operations, and that has done a great deal of damage to the cause of open trade. At its root, the notion is defensible. Whereas lowering trade barriers is by and large favorable over the medium and long term and for most players, there is often a price to be paid by some countries in the short term. This often involves selling particular economic interests short in favor of a solution that is overall better for others (such as consumers) in the short term and for all or most in the longer term. Lowering subsidies for French farmers may cause them adjustment problems, for instance, but it may also lower food prices for the consumer or boost the French service industry. Yet the immediate interests are often politically influential, so the tradeoffs that go on at the WTO serve as a political currency whereby trading partners make concessions in order to provide the political justification for the penalty imposed on the interests that lose out.

If negotiating tradeoffs is an effective way of convincing countries to make politically unpopular but economically necessary concessions, it is not generally a good way to serve wider goals such as equity, poverty alleviation, or environmental responsibility. In any commercial negotiation, commercial power confers negotiating advantage, so the powerful trading countries and blocs have greater

negotiating power. This suggests that they will always—or almost always—prevail in a stand-off with weaker parties. Further, in any negotiation involving commercial tradeoffs, the result may be more open trade, a larger economic pie, and a greater range of opportunities for traders; it will not automatically do anything to correct the inequities built into the trading system. If both sides make equal concessions, their relative position on the trading totem pole will remain the same. If the European Union is negotiating with the countries of the Southern Africa Customs Union, a successful outcome is unlikely to include a shift in the balance of commercial advantage in favor of the latter.

A second reason that wider goals are ignored relates to how trade policy is developed at the national level. Interest in maintaining a particular tariff or subsidy will be concentrated in a relatively small group of players (truckers, for instance, or dairy farmers) who will usually be well organized to defend an interest they deem crucial to their commercial success. An equally valid interest—for example, closing the gap between rich and poor countries, protecting the environment, or even lowering prices for the consumer—is likely to be far more dispersed and less well organized, at least in terms of affecting trade policy. Thus when national trade representatives set their negotiating priorities and parameters, the weight of immediate commercial interests will always trump less immediate or well organized concerns. So even if rapid, trade-led economic development in Central America is an essential component of any sensible strategy to limit immigration pressure in the United States, for instance, and even if that development might best be served by giving Central America unfettered access to U.S. markets for their goods and services, in reality the partisan interests of U.S. textile workers and fruit pro-

ducers will tend to prevail.

Finding the right balance among competing interests in formulating trade policy and negotiating positions is hard enough within the confines of trade concerns alone. But ensuring that trade and sustainable development are mutually supportive is considerably more difficult, since it involves the traditionally complex question of policy coherence. It is an inescapable fact that public policy is a hierarchy. Macroeconomic policy, including trade policy, travels first class, whereas the policies that relate to the environment and development travel coach—and often stand-by. The current crisis suggests that there may not be much progress on trade liberalization unless governments begin to demonstrate that they take the environment seriously.

Taking the Environment Seriously in the WTO

It is now abundantly clear that developing countries will not accept an outcome from multilateral trade negotiations that does not confer on them—or at least the more vocal of them—tangible trade benefits and that does not go some way toward correcting existing inequities and imbalances. Although it is hard to imagine an outcome in which all countries will benefit, any acceptable outcome will have to offer clear benefits to developing countries in some form, even if not directly due to trade openness. Development has now become a genuine trade imperative.

If the environment has not achieved this same position, it is nevertheless remarkable how this concern has progressed toward acceptability in the trading system. The early fear that the powerful new WTO would challenge and roll back decades of environmental achievement at the international level has subsided, replaced in both the trade and envi-

ronmental communities with the far healthier view that each concern relates to and affects the other and that both need to find ways to be mutually supportive. This includes the need to ensure that environmental standards do not become an unwarranted obstacle to market access by developing countries, but also that they are not unnecessarily challenged over their effect on trade. There is growing respect in the trade community for multilateral environmental agreements and even for their need to use trade measures to ensure compliance. The trade community asks only that the distortions to trade be no greater than necessary to achieve the purpose for which they are used.¹⁷

There remains, however, the problem that the trading system serves an outdated and failed economic paradigm, that it favors the corporate sector at the expense of public policy goals, and that its rules have shifted the balance of benefit further toward the private sector.

Responding to the Crisis at the WTO

Although the WTO agreements have boosted world trade and benefited some countries, they have fallen well short of the promise to reduce the gaps between the rich and poor, between the powerful and the weak, and between those who pursue immediate gain and those who fight for a fairer world. Indeed, the WTO—and trade liberalization more broadly—has come to be regarded as the vanguard of an economic paradigm about which there are increasing doubts. The organization is perceived by an important and highly vocal segment of society as a central part of the effort to impose the “Washington Consensus” on the rest of the world—an economic system based on a blind belief in the market and predicated on eliminating as many

constraints on corporate opportunity as possible. Whereas WTO agreements are by and large unfairly accused of advancing an unpopular economic paradigm, this is one case where perception is reality.¹⁸

The crisis at the WTO reflects both growing doubts about staying on a path that has failed to deliver on its promise and the growing insistence of the developing world that trade liberalization must not aggravate the development problems of poorer countries. The system is responding to this crisis with a broad debate on how to achieve better coherence among different policy areas and active analysis of how the system can deliver genuine development benefits, including the correction of past inequities. There is a clear sense that trade liberalization must not undermine progress toward broadly supported public policy goals such as poverty alleviation, a healthy environment, social justice, or human rights.

Since it has become clear that countries do not automatically benefit from trade openness, a major effort is under way to put in place the conditions that would make such openness a more positive experience. Since 1997 six intergovernmental agencies, including the WTO, have operated the Integrated Framework (IF) for Trade-Related Technical Assistance for Least Developed Countries, demonstrating growing cooperation among international institutions sharing an interest in a common theme. To date, the IF is active in 33 of the world’s poorest countries, helping to integrate trade with national development plans and poverty reduction strategies, setting priorities for trade-related technical assistance, and advising on governance reform to enhance participation in the world economy. This approach directly addresses one of the development-oriented goals in the WTO Preamble.¹⁹

More recently, the WTO has developed a

work program on Aid for Trade. Targeting developing countries, particularly the least developed ones, this aims to help governments put in place the capacity and institutions needed to benefit from more open trade. Aid for Trade is seen by many developing countries as very much part of the “down payment” they expect if they are to sign up to any package emerging from the Doha Round.²⁰

Efforts are also being made in the Doha negotiations to link a country’s obligations to respect certain disciplines with its actual ability to do so. In the ongoing discussions about trade facilitation (the removal of administrative barriers to trade), countries will agree to take on the full set of obligations only if and when they have the necessary institutions and human capacity in place. Where they do not, they will receive technical assistance—perhaps through Aid for Trade programs.

The issue of how trade rules link with and affect other public policy goals is also debated in the WTO’s Trade Policy Review Mechanism. This unit undertakes regular, independent studies of member countries’ trade policies and the extent to which they respect the requirements of WTO membership.

This may not be enough. The world may need to develop a set of screens and tests on sustainable development, along with a mechanism to settle areas of apparent or real incompatibility. All new trade rules, and to some extent also existing ones, would be subjected to these to ensure that their impact on sustainable development was positive. A forum to seek positive resolution in the case of incompatibility would also be needed, probably separate from the formal dispute settlement mechanism. The Council for Environmental Cooperation set up under NAFTA was intended to do something like this, although it has never lived up to expectations.

Beyond the interagency level of coopera-

tion on the Integrated Framework, there is a great deal of experimentation going on with forms of collaborative governance that go beyond strict government-to-government interaction. These involve public-private partnerships or public policy partnerships that gather concerned stakeholders in “accountability compacts.” The Extractive Industries Transparency Initiative, the World Commission on Dams, and the Forest Stewardship Council are good examples of these.²¹

Despite the encouraging developments and proposals just described, some of the problems that have become evident go well beyond the multilateral trading system itself. The crisis of the WTO also reflects the growing malaise caused by the perception that global change—and particularly economic liberalization—has outrun the world’s ability to govern for the general good of humanity. As it becomes increasingly clear that the dominant economic paradigm is making poverty, social injustice, and environmental degradation worse, the institutions that serve that paradigm come to be mistrusted.

Thus a cloud of uncertainty hovers over all attempts to push on further down that same road. The multilateral rounds of WTO negotiations and the additional concessions beyond WTO rules that powerful trading powers wrest from their partners through regional and bilateral free trade agreements or sectoral agreements of one kind or another all begin to look like “more of a bad thing.” Progress is not progress if the world is heading in the wrong direction.

Yet correcting this, or finding an alternative, is made doubly difficult by the lack of an agreement on the paradigm that might offer a broadly preferable alternative. Critics of the current system know that they want a reliable and functioning economy whose quantitative and qualitative growth offers steadily increasing opportunity. They want to cor-

rect the inequities that characterize today's world, reducing the gap between rich and poor countries and between rich and poor within countries and building respect for human rights and social justice. And they want to live within the limits imposed by Earth's ecosystems and natural resources. In short, they want to move toward sustainable development and would like the WTO and the other elements of the multilateral trading system to be a force in that direction. They want the WTO to consider the goal set out in its Preamble not as a statement of broad intention but an imperative, a benchmark against which it is judged and against which all proposals to expand its disciplines are evaluated.²²

In terms of both the collapsing paradigm and the need for the trading system to serve a wider goal, the notion of sustainable development may well mark the way forward. Indeed, it may be the only acceptable way forward. The goal is there in the Preamble. The need to meet it is reinforced in the Doha mandate, and a space has been created in which itineraries toward the goal might be reviewed. All that is missing is the political will to occupy the space and the tools needed to make the sustainable development paradigm operational.

Accepting That the World Has Changed

One reason for the lack of resolute decisions is that the world is in a state of deep confusion triggered by the deep and fast-paced changes in the balance of power—undoubtedly the most profound power shift since the emergence of a world order based on sovereign nation states almost four centuries ago. Even if the impact on the WTO and other elements of the international system may not yet be fully clear, the rise of China and India has

sent out shock waves that have not yet been adequately absorbed. And several other countries are flexing their muscles as well—Argentina, Brazil, Mexico, South Africa, and Viet Nam. In all likelihood the entry of Russia and most of the remaining former Soviet republics into the WTO will trigger further seismic changes, and it is far from clear how these changes can be handled, much less harnessed to sustainable development. The dominant position of the United States and the European Union, which have been substantially able to dictate trade rules, is fading and will never again be recovered.

The apparent redistribution of power among nation-states is happening in parallel with the emergence of a global public domain that demands governance for which organizations based on nation-states are proving inadequate. Indeed, the intergovernmental organizations of the United Nations, the World Bank Group, and others are organized around a postwar order that no longer adequately represents reality. This must give way to a new order focused on optimal stewardship of global public goods. Designing the right institutions for global economic governance will mean rethinking the role and primacy of the nation-state as traditionally understood. It will require reaching a geopolitical settlement no less significant than the order that emerged from the chaos of World War II, but one built on the central recognition of interdependence. And it will involve understanding and finding the right role for a series of new actors in global governance, most prominently corporations and civil society organizations and networks.

The challenge of global economic governance is that of managing multidimensionality. Climate change policy cannot be left to environment ministers, because getting it right involves energy policy, investment policy, foreign policy, and many other sectors.

Similarly, trade policy cannot be left solely to trade ministers.

Perhaps the model in this respect is the European Union (EU). For all its faults, the EU has proved adept at advancing a model of governance capable of addressing multidimensional problems—at least those that are of central concern to its member states. It has yet to demonstrate that it can take a multidimensional approach to emerging trading powers or to the challenges of global economic governance. But it also represents a model in another important respect: the acceptance of devolved authority. One problem with the present paradigm is the ambiguity of most states in terms of the authority they have devolved. This is certainly true of the WTO, still stuck in the outdated national sovereignty model that characterized the world of GATT.

This is not only an issue with richer trading countries. The much-vaunted G-20 group of developing countries in the WTO, which has proved a powerful force in countering the traditional dominance of the rich nations, is also torn by issues relating to national sovereignty and domestic politics. And its members have yet to demonstrate that they can lead developing countries to overcome a tendency toward “Third Worldism”—an automatic resistance to change because the proposals come from richer countries. It will be critically important that the emerging powers demonstrate, along with a growing sense of confidence, a positive capacity to take the initiative, to be creative, and to help shape the new order. They have already demonstrated an interest in a system characterized by greater fairness. The question is whether they can take this further.²³

Can they contribute to a system designed for citizens, not consumers? Can they help design a system that can mediate effectively among unequal powers or in a situation of

enormous complexity and diversity? Can they help craft a system dedicated to the joint goals of promoting political stability and advancing justice? A great deal depends on how the issues are framed. The goal is to move from an economics framed in terms of efficiency to one framed in terms of justice—both procedural justice and outcome justice. Future progress in extending the trading system will depend on the ability to demonstrate that trade liberalization does indeed advance these wider objectives.

In a very real way, a sustainable future depends not only on dealing with such eminently global issues as climate change (see [Box 14-2](#)) or the collapse of biodiversity. It depends on creating a society where nobody is excluded. The challenge is to design a trading system that will harness the power of trade to do good to a system that is characterized by a search for fairness, stability, mediation, the promotion of environmental values, and the imperative of inclusiveness. This requires a trading system that is accountable to the goals set for it and that is genuinely monitored to ensure it is proceeding optimally toward those goals. It requires a system that contributes as solidly as it can to the promotion of the public good, not simply to private interests, and that balances the power of the market with the need for a solid framework of public policy. In short, the world’s trading system needs to go back to the goal set out in the Preamble to the WTO Agreements—the optimal use of the world’s resources in accordance with the objective of sustainable development. Only this time it needs to be taken seriously.²⁴

What Is at Stake?

Today’s world is characterized by unfairness, but in any unfair system there are those who benefit. Nothing prevents countries from

Box 14–2. Multidimensional Problems

There is no magic, single solution to the challenge of controlling greenhouse gases. It is a challenge of energy policy and of managing the transition to sustainable energy sources. This in turn has a great deal to do with the technological transition, access to invention, and intellectual property. It has to do with investment policy and the nature of investment agreements and the settlement of investment disputes. And it has to do with trade policy—the trade rules and how the trading system deals with issues at the frontier between trade policy and related policy areas. In short, the issue cannot be dealt with by treating each of the pieces separately from the overall

picture of which they are but a part.

The same is true of what Paul Collier calls “the bottom billion”—those who are not benefiting from global growth, from trade liberalization, or even from much development assistance and who continue to survive on less than a dollar a day. The present economic approach offers them very little, and the new economic elites in the emerging countries often appear not to pay them much attention either. Yet a sustainable future depends on including them in our economies and societies and on lifting them out of their present misery.

Source: See endnote 24.

hunkering down behind their trade barriers and hanging on to what they have. Nothing prevents governments digging in their heels so that the only advances made in trade liberalization are those imposed on weaker countries by the more powerful. Nothing prevents the world from moving back to a period of greater protection, greater conflict, and greater suspicion of other countries. Things need not necessarily get better. They could well grow worse. Indeed, that would normally be the default result in an environment where reaching international agreements is increasingly difficult.

Were it not for the fundamental shift in power, the genuine threats to the future of humanity, and the growing disillusionment of voting publics with their political leaders, this path might well be the one followed. It appears, though, not to be a realistic option beyond the short term, because the world is also moving toward a situation where it is no longer susceptible to domination by one or two powers and must therefore search in earnest for compromise.

A good deal of the efforts of the emerging powers in the trading system are aimed at

eliminating trade distortions that benefit rich countries rather than simply protecting their vulnerable economic sectors from foreign competition. Along with global economic rules, there is developing what might be termed the “global public domain,” a recognized space in which notions of shared value in protecting global public goods are balanced with the notion of commercial advantage.

This approach is not a statement of “no confidence” in markets. It is simply a recognition that markets function optimally in light of the goals to be reached when they operate within a framework of agreed public policy. The role of states is no longer to direct the economy but to put in place a favorable policy framework and adequate checks and balances. Within this context, the notion of competition for personal or national advantage is replaced by a “competition for the good,” where the rules of the global economy are not allowed to undermine the ability of states to act for the public good.

When comparing the WTO and the rest of the multilateral system to this vision, it is clear that they fall short. But the system has

increasing difficulty in moving forward precisely because the global community insists on something closer to that vision and has dwindling patience with WTO's shortcomings.

Who, then, will lead us to the "promised land" hinted at in the WTO's own statement of purpose? Interestingly, it is not in the formal trade policy community that the new movement is evident. It is not the WTO delegates in their representational capacity who are acting in an innovative way. The laboratories for new thinking on trade governance are in spaces created outside traditional institutions, in which new proposals are articulated, reviewed, and debated. Some of the most creative thinking is taking place in organizations like the Evian Group—a forum that gathers a mix of WTO delegates and staff, academics, and civil society representatives. It is found in dialogues organized on these issues by the International Centre for Trade and Sustainable Development in Geneva, which offers senior trade officials a safe space in which to experiment. It is in events orga-

nized by the Royal Institute for International Affairs in London or its equivalent in South Africa, Brazil, India, and China, where new ideas are incubated, tested, and refined.²⁵

The ideas, approaches, and proposals that emerge in such forums and meetings make their way into the political processes, build a level of trust, and begin to filter into the reform ideas that sooner or later design and install the institutional structures that will allow the world to address new challenges as global change accelerates. It is no different for trade than it is for climate change or biodiversity conservation. In each of these areas, we are building toward what we hope will be a tipping point, a massive collection of political will that will tip the balance in favor of positive action. Each contribution may appear insufficient, but the accumulation can make a big difference. It has done so before in one field after another. There is no reason why it cannot happen when addressing the challenge of governing trade for the good of humanity.

Chapter 14.

New Approaches to Trade Governance

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