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Thinking Situationally About the Role of International Institutions: The Dynamics of Change in the International System and the Role of the World Trade Organization

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Thinking Situationally About the Role of International Institutions: The Dynamics of Change in the International System and the Role of the World Trade Organization

A dissertation submitted to the Graduate School of the University of Cincinnati in partial fulfillment of the requirements for the degree of Doctor of Philosophy

in the Department of Political Science of the College of Arts & Sciences

by

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Abstract

This dissertation examines the role of international institutions in the international system by addressing the two core reasons behind the enduring indeterminacy about the topic: the failure to situate international institutions in the dynamics of change in the international system, and, once international institutions have been situated properly, the challenge of assessing their impacts both inclusively and isolated from every other aspect pertaining to the dynamic linkages between domestic and international affairs. To this end, the dissertation provides a framework of analysis that conceptualizes the systemic role of international institutions as integral to the dynamics of change in the international system. The framework is applied to the WTO as a specific case study, examining whether and how the WTO alters the prospects for systemic changes, and what that means for the debate on the role of international institutions in the international system. The dissertation contributes to the literature on the impact of the WTO on the international system and advances the understanding of, and provides a springboard for further investigating, the systemic role of international institutions.
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# Table of Contents

Chapter 1 – Introduction ................................................................. 1  
Chapter 2 – The Dynamics of Change in the International System and the Role of the WTO 18  
Chapter 3 – The Impact of the WTO on International Economic Interactions ............... 114  
Chapter 4 – The Dispute Settlement System and the Relative Ability of WTO Members to Secure their Trade Interests .................................................. 148  
Chapter 5 – The WTO, Economic Policy, and Relative Prospects for Development ........ 222  
Chapter 6 – The WTO and the Role of International Institutions in the International System 299  
Bibliography ......................................................................................... 316
List of Tables

Table 2.1 – The Tale of Two WTOs .......................................................... 36
Table 3.1 – Shares of Global Merchandise Exports ................................. 120
Table 3.2 – Shares of Global Merchandise Exports, Value Added .............. 123
Table 3.3 – Merchandise Exports Growth 1990-2010 .............................. 125
Table 3.4 – Commercial Services Exports ........................................... 130
Table 3.5 – Commercial Services Exports, Value Added ......................... 131
Table 3.6 – Foreign Direct Investment Inflows ...................................... 145
Table 4.1 – Top 15 Complainants and Respondents .............................. 182
Table 4.2 – Participation as Third Party Only ....................................... 190
Table 5.1 – Average Effectively Applied Tariff Rates (%) – 2010 ............... 227
## List of Figures

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>Power in the International System</td>
<td>67</td>
</tr>
<tr>
<td>2.2</td>
<td>Change in the International System</td>
<td>77</td>
</tr>
<tr>
<td>2.3</td>
<td>State-System Continuum</td>
<td>94</td>
</tr>
<tr>
<td>2.4</td>
<td>State-System Continuum and the WTO</td>
<td>111</td>
</tr>
<tr>
<td>3.1</td>
<td>Developing Country Merchandise Exports Growth, Value Added (1990-2010)</td>
<td>128</td>
</tr>
<tr>
<td>3.2</td>
<td>Developed Country Merchandise Exports Growth, Value Added (1990-2010)</td>
<td>128</td>
</tr>
<tr>
<td>4.1</td>
<td>The Panel Process</td>
<td>156</td>
</tr>
<tr>
<td>4.2</td>
<td>Framework for Analyzing the Dispute Settlement System</td>
<td>163</td>
</tr>
<tr>
<td>5.1</td>
<td>Average Annual Rates of GDP growth (%)</td>
<td>262</td>
</tr>
<tr>
<td>5.2</td>
<td>Shares of Contribution to GDP – Brazil</td>
<td>281</td>
</tr>
<tr>
<td>5.3</td>
<td>Shares of Contribution to GDP – India</td>
<td>281</td>
</tr>
</tbody>
</table>
1

Introduction

“At the moment, we cannot be sure that prominent [international] institutions are performing according to theory, nor can we say which institutions are living up to their mandates” (Goldstein, Rivers, and Tomz 2007, 38).

Although international institutions are a fixture of international relations, the role they play in the international system remains a subject of contention. Both international relations scholarship and unscholarly narratives harbor conflicting views of what international institutions represent depending on whether and in what manner they are understood to affect international affairs. The coexistence of competing views of the role of international institutions is a product of the fact that, as Goldstein, Rivers and Tomz indicate in the quote above, the performance of international institutions – both individually and in conjunction – remains undetermined. As none of the views of the role of international institutions in the international system is either disproved or vindicated due to the dearth of empirical substantiation of the performance of international institutions, they are able to exist in contradistinction to each other, sustained mainly on either theoretical or ideological grounds.

This dissertation examines the role of international institutions in the international system by addressing the two core reasons behind the enduring indeterminacy described above: first, the failure to situate international institutions in the dynamics of change in the international system,

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1 An ontological note is in order: the impact of international institutions is assessed with attention to the distinction between potential and realized impacts, with realized impacts referring to what impacts have been without presuming it indicates how they are bound to be in the future. This point is further developed ensuingly.
and, second, once international institutions have in fact been situated properly, the challenge of assessing their impacts both inclusively and isolated from every other aspect pertaining to the dynamic linkages between domestic and international affairs. This agenda therefore addresses two interrelated questions: how to think about the role of international institutions in the international system, and based on that understanding, how to analyze it empirically. The former is a fundamental conceptual question; the latter is its analytical derivative, which is also contingent on the object of analysis, that is, on which international institution is being analyzed. In addressing the first question, the dissertation articulates the argument that the role of international institutions refers to whether and to what extent they affect the process of change in the international system. For this reason, understanding their systemic effect requires situating them in the dynamics of change in the international system. In view of that, the dissertation addresses the second question by studying the systemic role of the institution that is touted as the most successful international economic institution of the post-World War II era, the World Trade Organization (WTO).²

By not only addressing the theoretical conceptualization of the role of international institutions, but also conceiving of and analyzing the role of the WTO as a specific case, the dissertation contributes to a better understanding of the systemic role of both international institutions in general, and the WTO in particular. The latter contribution also permits an examination and assessment of the two contending narratives of the WTO prompted by the two opposing views of international institutions in the international relations literature around which the debate over their role revolves.

² To be sure, recognition as the most successful international economic institution does not mean being understood to perfectly fulfill its mandate; it simply means it is generally understood to show a greater level of success (or perhaps to be less imperfect) than other institutions such as the World Bank and the International Monetary Fund.
BRINGING IN THE DYNAMICS OF CHANGE IN THE INTERNATIONAL SYSTEM

Whereas the role of international institutions has been intensely debated in the international relations literature (e.g. Keohane 1984; Mearsheimer 1994; Keohane and Martin 1995), the debate has considered whether and how they matter for certain purposes – mainly for prospects for cooperation and mitigating power asymmetries – without much attention to what “playing a role” in the international system actually means.

The literature’s focus on whether and how international institutions matter has involved examining whether or not international institutions influence international relations by making outcomes different from those that would be obtained through the unabridged dictates of power and security concerns. Notwithstanding the importance of these contributions, such an approach suffers from the major limitation of largely neglecting how international institutions relate to the engines of change in the international system; that is, they fail to consider those outcomes and their impacts vis-à-vis all other forces at play. This has been a weakness of the international relations literature concerned with the role of international institutions because the theoretical approaches in the field of international relations have developed fairly disconnected from scholarship on change in the international system, therefore overstressing continuity and neglecting the process of systemic change (Buzan and Jones 1981). If the structure of the international system matters for international relations, it is central to take into account the process through which one system transforms into another (Zinnes 1980); if that is neglected, it is accordingly impracticable to make sensible assessments of whether and how international institutions affect the international system. The fact that the constitution and workings of international institutions have been investigated without situating them in the dynamics of
change in the international system thus constitutes the lead reason behind the persistence of the indeterminacy about the role of international institutions in the international system.

In this light, the dissertation articulates the argument that in considering their role in the international system, international institutions should be thought of as integral parts of the comprehensive dynamics of change in the international system. Any attempt at assessing the systemic role of international institutions requires specifying where they fit into the complex continuum involving domestic and international realities that governs the process of change in the international system. This stresses the understanding that the role of international institutions refers to whether and how they alter the capabilities and incentives characterizing the international system and deriving from the complex continuum involving multiple domestic-international linkages. It also highlights the notion that the nature and scope of such alterations can only be appreciated if each international institution is analyzed with a view to determining whether it contributes to promoting alterations in such a continuum that cause transformations in the constitutive elements of the international system that either would not occur or would have had a different scope without their influence.

Essentially, given that what matters for determining whether and how international institutions affect the international system is how the impacts that international institutions generate play out in the broader scheme of capabilities and incentives governing the international system, an analysis of the role of international institutions must be accordingly contextualized in order to enable assessing how significant these impacts are in relation to all other aspects pertaining to the entire dynamics of the international system. This requires a clear conceptualization of what constitutes and what causes change in the international system. It also requires identifying how each international institution in particular relates to change.
Accordingly, as it adopts the WTO as a specific case study, the dissertation situates the WTO within the dynamics of change in the international system in order to assess its role in the international system.

DEBUNKING THE TALE OF TWO WTOs

Only when a clear understanding of both what constitutes and what causes change in the international system and how international institutions relate to that is established is it possible to gain a better understanding of the role of international institutions in the international system. In the absence of such understanding, the theoretical debate over the role of international institutions has unfolded fairly unsubstantiated, based mainly on world views rather than on the appreciation of the actual workings of the international system. This has made room for the coexistence of antithetical views of the role of international institutions, which is indeed a situation that illustrates how distant the debate is from the real world insofar as the coexistence of contending views is only possible when either a reasonably good understanding of the issue at stake is lacking or abstract ideas override actual knowledge.

In this light, the two opposing views in the international relations literature – the realist and neoliberal institutionalist schools of thought – that color the debate over the role of international institutions prompt two contending narratives of the WTO. Given that the views of the role of international institutions from the realist and neoliberal institutionalist camps bear limited underlying conceptualizations of what “playing a role” in the international system means and wanting substantiation of the role attributed to international institutions, they generate fairly groundless narratives of the WTO.
According to realists, international institutions are mere reflections of the distribution of power in the international system, emanating from power differentials and serving the interests of the most powerful states in the system, and thus having virtually no independent influence on international affairs (Mearsheimer 1994). According to this conceptualization, international institutions play a conservative role in the international system insofar as they help to sustain the power advantages enjoyed by the most powerful states. Seen in this light, the WTO is an instrument of domination, serving to perpetuate or widen the disparities in economic condition, and in power capabilities more broadly, among WTO members. That implies that the WTO helps the economic advancement of the most advanced economies, undercuts the development of others, or both, in ways that ensure either the preservation of, or an increase in, the economic advantage of the most advanced states in the system.

Neoliberal institutionalists acknowledge that international institutions usually derive from the distribution of power in the international system, but unlike realists (and neo-Marxists) they argue that international institutions may decouple from the power relationships from which they originated and have an independent effect on international affairs (Keohane and Martin 1995). According to this view, international institutions may generate outcomes inconsistent with expectations based on the distribution power. Given that outcomes of such nature may implicate shifts in the distribution of power disfavoring the most advanced states in the system, the role of international institutions is open rather than conservative. Considered through this prism, the

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3 Here, it should be noted that the neo-Marxist school of thought follows a similar rationale, albeit by focusing on the global capitalist system and by emphasizing the economic sphere.

4 This involves a deliberate focus on how trade-related issues covered by WTO agreements affect a state’s economic condition, which in turn affects economic and military power, albeit that connection is not an automatic translation. This is further articulated in the next chapter.

5 This does not rule out the possibility of outcomes favoring the most advanced states in the international system; it simply means that instead of only the most powerful states ineluctably enjoying favorable outcomes, outcomes favoring either the most advanced states or other states are possible, and either one or the other will be obtained for
WTO lives up to its multilateral, rule-based character, mitigating returns to power and thus generating impacts dissociated from the distribution of power in the international system. This implies that the WTO does not prevent developments in international trade relations from running counter to the preservation of the relative economic advantage, and more broadly the relative power advantage, of the most advanced states in the international system.

Springing from theoretical renderings of the international system rather than from comprehensive assessments of the systemic impacts of the WTO, these two distinct views of the WTO remain largely unsubstantiated, therefore constituting in essence figments of two untested narratives. That is indeed why they are able to coexist while portraying the WTO as if they referred to two completely distinct organizations, one in which power prevails, and other in which rules prevail. Therefore, to the extent that the debate over the role of the WTO reflects two untested narratives deriving from competing theoretical views of the role of international institutions, the debate is in fact a tale of two WTOs. Such a tale evinces both how competing worldviews affect the understanding of specific elements of the international system, and most importantly, how indeterminacy makes room for incompatible narratives to exist side-by-side. Indeed, if international institutions are created and shaped by the most powerful states “so that they can maintain their share of world power, or even increase it” (Mearsheimer 1994, 13), as realists have argued, how is it possible that according to the WTO it increases the bargaining power of less developed countries? If the WTO contributes to preserve the privileged position of the most powerful states, how is that purpose served by the fact that according to the WTO, through its “…dispute settlement procedure, developing countries have successfully challenged some actions taken by developed countries [while] without the WTO, these smaller countries

reasons other than the dictates of power asymmetries. In this light, what matters is not who is favored by outcomes, but the manner through which outcomes are obtained.

6 “10 common misunderstandings about the WTO,” World Trade Organization, 2008, p.8
would have been powerless to act against their more powerful trading partners”?

Can the fact that under the aegis of the WTO trading system developing countries have increased their shares of global exports of both merchandise and services be reconciled with a view of that system as one instrumental to the preservation of the relative power advantage of the most powerful states? Does the operation of the WTO vindicate its professed equality in rights and obligations, save for exceptions accommodating the circumstances of developing and least developed countries, or is that just hearsay covering workings favorable to the prevailing powers in the system? As regards the WTO in particular, this dissertation project is motivated by the dissonance harbored in each of these questions. They epitomize the inconsistency between the prevailing, conflicting views of the role of international institutions that derive from the enduring indeterminacy about how international institutions affect the international system.

In view of these questions, the WTO is chosen as the object of analysis for two core reasons: the perceived exceptionalism of the WTO’s multilateral character and performance, and the greater measurability of its impacts compared to those of other leading international institutions, notwithstanding how challenging it is to determine those impacts even for the WTO. Among the main international institutions consolidated from the middle of the twentieth-century onwards, the WTO is unique in its multilateral forum character as opposed to entailing a hierarchical structure. The WTO’s core institutional bodies, the Ministerial Conference and the General Council, comprise all of its 153 members, 117 of which are developing countries or separate customs territories, and decisions in the WTO are generally consensus-based. WTO agreements accordingly carry greater legitimacy than the provisions of institutions such as the United Nations, the World Bank and the IMF in which representativeness and decision-making

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7 “10 common misunderstandings about the WTO,” *World Trade Organization*, 2008, p.8
8 According to data from the WTO Time Series on international trade.
powers are imbalanced. For this reason, the WTO can be seen as a hard test for the understanding that international institutions can become independent from the dictates of power asymmetries. Further contributing to making the WTO a hard test in that regard is the fact that the WTO is perceived as uniquely successful in discharging its mandate of promoting trade without discrimination and with greater competitiveness, transparency and predictability, in particular due to how the advent of its Dispute Settlement Understanding has been instrumental to consolidating the trading system established by its agreements (e.g. Horlick 2002, Choi 2007). In turn, the fact that it relates to a particular sphere of economic activity makes its impacts more accessible than institutions with broader mandates, such as the United Nations. Additionally, among international economic institutions it is the one which best lends itself to cross-country analysis because it entails universal rules – rules that apply to every WTO member and have been active uninterruptedly – rather than ad hoc interventions.

These specific reasons for choosing the WTO as the object of analysis accordingly indicate that such choice is not dismissive of the role of other international institutions. Indeed, the WTO was chosen due to specific aspects which were understood to make it a propitious object of analysis for the purposes of the project, and not because it was understood to be more relevant than other international institutions. Accordingly, the WTO is analyzed with respect to its role in the international system with the recognition that its role is not representative of the role of other international institutions, which signify that, however instrumental findings about the role of the WTO might be, they constitute only part of what pertains to elucidating that debate. Indeed, this dissertation seeks to advance the understanding of the role of the WTO in the international system in full awareness of the limitations it involves. Accordingly, the dissertation is devoid of the presumption of being exhaustive as it pursues avenues of analysis devised to
provide a heretofore lacking systematic assessment of how the WTO integrates the dynamics of change in the international system.

To be clear, this dissertation project is not about how the WTO was created or why it is structured the way it is; it is also not about why it generates the outcomes it does. These are important, related issues, but as it adopts the WTO as a specific case to study, this project is specifically concerned with whether and how the WTO alters the prospects for changes in the international system, and what that means for the debate on the role of international institutions in the international system.

CHANGE IN THE INTERNATIONAL SYSTEM AND THE TALE OF TWO WTOs

In line with the failure of theoretical debates over the role of international institutions to situate them in the dynamics of change in the international system, recent analyses of the actual workings of the WTO lack a systematic approach underpinned by how the WTO is situated within the dynamics of change in the international system. Recent analyses of the WTO typically focus on specific aspects of the workings of and outcomes from the WTO (e.g. Hudec 1993; Busch and Reinhardt 2002; Rose 2004; Bown 2004a,b). They normally do not deploy a framework of analysis that allows their findings to be situated within the dynamics of change in the international system. By illuminating specific aspects of the functioning of the WTO, they provide the basis for a systematic assessment of its role in the international system, but they do not offer such assessment. Without such an assessment, the role of the WTO in the international system cannot be fully understood.

Considered against the backdrop of the dynamics of the international system, the tale of two WTOs involves two conflicting interpretations of whether and how the WTO affects change
and continuity in the international system. This line of inquiry involves two key questions. First, whether the WTO generates or allows changes which produce sufficient alterations in capabilities and incentives to transform the current international system into another system, which might not necessarily be too dissimilar but is distinct enough to prompt incentives and relationships bearing some degree of difference from those existing previously. Second, how those changes combine and compare with other elements pertaining to the engines of change within states and how they relate to the engines of change in the international system.

Whereas theoretical approaches of international relations concerned primarily with security usually have “an overly narrow and static conceptualization of international commerce” (Brooks 2005, 9), a systematic analysis of international institutions in the international system requires accounting for their dynamic effects on the constitutive elements of the system and their implications. The WTO changes the world in certain ways; that is, it makes the world different than it would be in its absence. If it changes the world in a way which is conducive to the regular generation of results which preserve or increase the relative advantage of the most powerful states in the system, it generates results consistent with the distribution of power which consequently may change the international system in ways reinforcing existing power asymmetries. That signifies prospective changes in relative economic condition, which may have implications for relative economic power assets, in favor of the most advanced economies. Whether those changes have system-relevant implications depends upon their nature and scope relative to both their original state and the alterations generated by other sources of change and how they affect the existing structure of capabilities and incentives. Such structure is multi-dimensional, involving the sources and the dynamic implications of all forces impinging on the behavior of actors and the direction of events. This highlights how it is not a single dimension –
such as military power according to realists – that makes the international system; accordingly, rather than involving a concern with a single dimension, assessing change in the international system involves assessing whether there occurs change in a multi-dimensional interweave of forces. With respect to the WTO, this means that determining whether and to which extent it changes the system refers to its impact (or lack thereof) on the entire dynamics of incentives and actions within and across states. Therefore, changes in relative economic conditions possibly resulting from the workings of the WTO are not intrinsically relevant, but have their systemic relevance deriving from whether and how they affect the distribution of opportunities and constraints across multiple dimensions. The same applies to generating or allowing changes inconsistent with the distribution of power, changes which would thus be potentially conducive to the erosion of the relative advantage of the most powerful states in the system. What is central about this possibility is whether it involves changes in the economic condition of WTO members eroding the relative economic advantage of advanced economies to a degree sufficient to alter incentives and relationships, thereby producing a novel systemic environment.

In view of the conceptualization of the international system as a complex interweave of incentives and relationships across multiple dimensions, it is important to recognize that the WTO only affects the array of possibilities for economic advancement that each WTO member faces; it by no means singlehandedly determines whether advancement takes place. The latter is contingent on whether and how effectively WTO members seize opportunities for advancement provided by the array of possibilities, not on developments directly produced by the WTO itself. Accordingly, the focus should be on how the WTO affects the possibility of economic change with an eye to the ultimate end of examining how it affects the international system. This focus also highlights how each state’s domestic political economy affects the manner in which it deals
with the ways that the WTO affects the possibility of economic change. In this sense, the domestic political economies of states are central in determining whether system-relevant changes related to the WTO will occur.

Moreover, this evinces the limits of the impacts that the WTO might have. As noted in a thorough historical review of international trade and economic performance, “[o]bviously, growth depends on a wide range of variables other than exposure to trade” (Findlay and O’Rourke 2007, 520). Accordingly, the WTO alone cannot possibly clog the engines of economic change, which means it is not able to impede prospective changes in economic power and its derivatives. Essentially, short of full-blown global domination, no state, no matter how powerful it is, and no institution, no matter how lopsided it is, can block changes in capabilities which may have transformative consequences for the international system because in large part those developments are dependent upon internal aspects beyond the reach of either other states or international institutions. At best, an international institution such as the WTO may help some states by making the development of certain power capabilities somewhat easier for them to achieve or retain or more difficult for others to achieve. But an international institution does not preclude a state from attaining an advancement of its condition, most importantly because it does not supersede whether and in which manner each state can successfully pursue improvements in power capabilities within the domestic and international circumstances it faces.

As it is impracticable to lock in power differentials through international institutions, the main benefit they bring to those that have a relative power advantage is that, in line with G. John Ikenberry’s (1999) argument about the endurance of the post-World War II liberal international order, changes in relative power take place under orderly and binding conditions. That is instrumental to the most powerful states because it enhances their ability to accrue absolute gains
while reducing the costs of maintaining order, and establishes a condition in which emerging powers will not be as unrestrained as current and past global powers were at the pinnacle of their international power. International institutions thus have a functional utility to the most advanced states even though they cannot prevent the erosion of their relative power.

But notwithstanding such utility, the fact that they do not suffice to impede changes with potential transformational repercussions signifies that they cannot block the transformation of the international system into new ones attuned to new distributions of capabilities and new structures of incentives. Absolute gains in capabilities, and gains in order and binding, do not override the internally-contingent possibility of relative changes in capabilities because, if realized, such a possibility might transform the system in ways that reduce the clout of the most powerful states in the system. Therefore, even if international institutions in fact work in a way that makes them have a functional utility for the most powerful states in the system, this is a merely temporary condition because it does not override the fundamental sources of change in the system.

In view of these considerations, the chief contribution of the analysis is to show that none of the narratives of the WTO, as well as none of the theoretical currents from which they emanate, properly situates their considerations of the role of international institutions within the dynamics of change in the international system. The analysis also highlights that in fact no international institution could actually do much in terms of blocking the relative advancement of less powerful states unless it were an integral part of a global hegemonic structure of domination through which the internal dynamics of the dominated states were controlled by the hegemon. As such an utterly domineering structure does not exist, has never existed, and is hardly practicable, the scope of the impacts an international institution can have over the distribution of power is limited by the centrality of the state’s domestic political economy to the development of power
capabilities and systemic incentives. With respect to specific findings, the analysis does not categorically prove or disprove either of the two narratives of the tale of two WTOs; it weakens the narrative that the WTO contributes to preserving the privileged position of the most advanced economies, but that should not be taken as a consummate disavowal of that narrative. Further research is required for more definitive conclusions. The dissertation provides the theoretical springboard for such work.

STRUCTURE OF THE DISSERTATION

Five chapters follow this introduction. Chapter 2 begins by presenting the debate over international institutions in the international relations literature and articulating conflicting views of the WTO in line with that debate. It then introduces conceptual frameworks of what constitutes change in the international system and of how states fit into that process of change, a discussion that allows the WTO to be situated into that process of change. Next, it develops the core conceptual underpinnings that will be used in subsequent chapters for analyzing the impacts of the WTO in the international system. Accordingly, it stresses how the forces at play in the international system are heavily anchored in the internal dynamics of states, thus making it imperative to consider the whole state-international system continuum to which such forces belong in order to address the dynamics of change in the international system.

Chapter 3 provides an initial assessment of how the WTO might be affecting states and the international system through its impacts on trade-related aspects of international economic interactions. It does so by examining general trends in international trade relations with a view to how the WTO may be affecting or failing to affect them as compared with the expectations of the conflicting narratives of the WTO. Whereas such assessment does not determine the specific
scope of the WTO’s effects, the exercise of conjecturing the role of the WTO suggests both the possible direction and the limits of the WTO’s impacts, thus providing a sense of how the WTO has been affecting the international system.

Chapter 4 focuses on the WTO’s Dispute Settlement (DS) system, which is a realm in which the role of the WTO is clearer because through the DS system the WTO is involved directly in specific trade relations between its members. The chapter assesses how the DS system affects the relative ability of WTO members to secure their trade interests when trade conflicts arise. Changes of such nature alter the state’s ability to protect and advance its means of effecting changes in its economic condition, thus being potentially conducive to changes in the distribution of power assets and consequently on the structure of incentives constituting the international system.

Chapter 5 addresses the implications of WTO provisions for economic policy and how they affect the prospects for the development of WTO members. Restrictions on trade-related economic policy increased substantially upon the inception of the WTO, including restrictions that deny policy options which were available and were widely used in the past when present day developed countries were developing. Those provisions have thus altered the developmental landscape, making it particularly different for states in the process of developing today compared to states developing prior to the WTO. If such a distinct developmental landscape favors a country or a group of groups at the expense of others, it has implications for the prospects of relative changes in economic condition, thereby potentially having systemic repercussions.

Finally, chapter 6 brings together the implications of the analyses from chapters 3-5, identifying patterns with a view to determining whether the implications from the analysis are consistent and thus point to a coherent effect on the international system. It indicates that there is
indeed a consistent pattern of, at a minimum, little interference in the prospects for change in the international system vis-à-vis the constellation of forces behind systemic change, especially when change is in fact heavily anchored in the internal dynamics of states. Another finding is that the WTO possibly confers a relative benefit to the least powerful states as, notwithstanding some constraints, they enjoy constructive conditions internationally, conditions they otherwise would not have. The chapter then discusses avenues for future research, including several avenues which merit investigation by themselves but which also contribute to further advancing a systematic understanding of the role of the WTO in particular, and of international institutions more broadly, in the international system.
This chapter provides the conceptual core of this dissertation project. The chapter presents the research questions instigating this dissertation project, indicates the reasons why they remain unanswered, and accordingly lays a theoretical foundation for contributing to answering them. The first section of the chapter describes competing understandings of the role of international institutions and demonstrates how they prompt two opposing views of the World Trade Organization (WTO). The section highlights how the debate over the role of international institutions has been overly concentrated on the theoretical underpinnings of competing views of international relations and correspondingly how the role of international institutions remains fairly unchecked in terms of their actual systemic impact. The debate over the role of the WTO exemplifies this. The section notes that assessing the systemic impact of international institutions is imperative to substantiate the debate over their role. In view of that, it presents the objective of this research project of contributing to illuminate the debates over the role of the WTO in particular, and of international institutions more broadly, by systematically assessing the impact of the WTO on the dynamics of change in the international system.

The following section of the chapter lays the theoretical foundations for assessing the impacts of the WTO on the dynamics of change in the international system in ensuing chapters.
Pointing out that the debate over the role of the WTO refers to whether and how the WTO promotes change in the international system, it demonstrates how no substantiated claim about the role of any actor in the international system – in this case the WTO – can be made without a proper account of change in the international system. The section accordingly points out that the theoretical claims from the international relations literature debating the role of international institutions are deficient insofar as the main theoretical approaches offering systemic depictions of international relations for the most part still neglect what is behind the ineluctable processes of change making the international system to be continuously under transformation. Accordingly, with a view to situating the WTO within the dynamics of change in the international system in order to pursue a proper assessment of its role in the vivid reality of the international system, the section discusses what constitutes the international system, what power within the international system means, and in light of that, what constitutes change in the international system. Informed by that, a conceptual framework of change in the international system is introduced. After that, the section elaborates on what is behind change in economic, military, and soft power assets, which are the constitutive elements of the international system more directly related to prospective changes in economic condition deriving from the workings of the WTO trading system. Based on that, the section finally considers the potential roles the WTO might play as

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10 The emerging constructivist literature has been contributing to illuminating the fundamental bases of the international environment and how they impinge on international relations, as well as how they can and do change. Yet as it focuses on social constructs and is not particularly concerned with material aspects, and ontologically abstains from systemically modeling the international system, it remains short of connecting its insights with the broader dynamics of change in the international system, the reason why (at least as of yet) it is not at the forefront of the debate over the systemic role of international institutions. In a way the constructivist literature has the opposite limitation that the other main theoretical approaches have; that suggests potential gains from reconciling them.

11 This is no dismissal of the importance of changes in norms and principles underpinning the international institutional framework, in interests and objectives, in patterns of enmity and friendship, in the distribution of regime types, and in cultural and economic stimuli. Those are relevant and merit specific investigation; this dissertation project thus focuses on what is behind changes in power assets not because what is behind change in other elements of the international system is deemed irrelevant, but instead as a deliberate delimitation of the scope of the analysis to those elements over which the prospective effect of the WTO is more directly consequential and for that reason are at the forefront of the debate over the impact of the WTO on the international system.
an engine of change in the international system. These roles orient the focuses of the analyses developed in the ensuing chapters.

2.1. Views of the Role of International Institutions and the Tale of Two WTOs:

Among the theoretical schools of international relations (IR), those that provide the clearest predictions or expectations about the role of international institutions are realism, in all its variants, neo-Marxism, as referring to world system theory, and liberalism, in its neoliberal institutionalist form as realism’s major contemporary contender. They can do so because they ontologically approach core elements of the international system as naturally occurring. In contrast, the constructivist school, concerned with how reality is socially constructed rather than naturally given (Wendt 1992, 1996), is interested in the ideas and processes through which international institutions emerge and develop a certain role rather than in the role per se. For constructivists, whichever role international institutions play is as consequential as the relevance ascribed to them through the process of social construction of reality, and because social constructs can be socially transformed, that role is transitory. Being socially contingent, no categorical claim about international institutions is admissible; one can only speak of the current (and impermanent) role each of them plays, as some constructivists have (e.g. Finnemore 1996). In essence, given its ontological approach to the international society, constructivism cannot and does not intend to offer claims of overarching fundamental effects; it abstains from and in fact disavows the mainstream debate in IR literature over the role of international institutions with respect to the materialist assumptions upon which it is based. For this reason constructivism is extraneous to the objective of this project, which is to illuminate that debate.
Whereas constructivism contrasts with realism, neo-Marxism, and neoliberal institutionalism ontologically, this project approaches the debate among them over the role of international institutions without either subscribing to or jettisoning their ontology, simply intending to evaluate them in their own ontological universe. To that end, this section characterizes the understanding of each of them of the role of international institutions and the view of the World Trade Organization (WTO) that they prompt.

Though sharply distinct in their central concern and conceptual underpinnings, realism and neo-Marxism generally converge on their view of the role of international institutions. For them, power breeds power-serving international institutions. As noted by Robert Gilpin, “the particular interests that are most favored by [international] social arrangements tend to reflect the relative powers of the actors involved” (Gilpin 1981, 9). In that respect, realists conceptualize power more broadly, as derived centrally from economic and military capabilities, and oriented towards either power or security maximization, whereas neo-Marxists conceptualize power in purely economic terms and oriented towards wealth maximization. In a competing camp, neoliberal institutionalists recognize the role of power in shaping international institutions, but understand that institutions may decouple from the power relationships from which they originated and play a role independent from the distribution of power. Rather than mere extensions of power asymmetries as neorealists and neo-Marxists see them, for neoliberal institutionalists international institutions may be consequential as intervening variables.

The debate over the role of international institutions thus involves two competing camps: one integrated by realists and neo-Marxists which dismisses their role as marginal to the prevalence of power relations, and another integrated by neoliberal institutionalists which see them as mitigators of power asymmetries. These competing views of the role of international
institutions prompt two distinct views of the WTO which nonetheless converge with respect to the understanding that “the structure of international trade is determined by the interests and power of states acting to maximize national goals” (Krasner 1976). According to the former the WTO manifests power asymmetries and serves to reinforce the interests of the most powerful, whereas according to the latter the WTO is not a conservative institution with respect to the distribution of power in the international system. In line with Stephen Krasner’s characterization of distinct views of international regimes (Krasner 1982), they may be characterized as understanding the international trade regime centered in the WTO as either an epiphenomenon of the power structure or a derivative of such structure which nonetheless may have independent impacts.

**REALISM, INTERNATIONAL INSTITUTIONS AND THE WTO**

For realists, for whom the world is defined by the distribution of power since power is the only reliable means to survive and succeed in an inherently self-help playing field, international institutions are inseparable from power relationships. If they have any effect, international institutions thus have at best a marginal effect aside from the prevalence of power asymmetries. There are distinctions among realist views, but they all agree on that.

Because it assumes that states are driven by a lust for power inherent to the fact that they are led by innately power-seeking human beings, the classical realist view associated with Hans Morgenthau (1948), more emphatically than the main contemporary realist views, leaves no room for any role for international institutions but one which is subservient to power. The combination of the understandings that “nature dictates that power prevails” (Thucydides) and that human beings are driven by “competition, diffidence, and glory” (Hobbes 1651) makes
power maximization the sole rational goal. Concerns with diffidence provide a compelling yet
minimalist incentive, but a yearning for competition and glory categorically determines that
power maximization is an inescapably peerless goal. If states pursue power for its own sake with
hegemonic power as their ultimate goal, every effort is oriented towards that single towering
objective. Creating an international institution thus only makes sense if it serves that objective. In
fact, it can be expected that the most powerful states will take advantage of their position to
create and exploit institutions as serviceable tools in their quest for preponderance. International
institutions are accordingly manifestly connected with the distribution of power and will not
exist in any other circumstance, which signifies that they have no condition to have any effect
dissociated from the distribution of power. Seen in this light, an international institution such as
the WTO constitutes nothing more than a manifestation of the distribution of power which
reinforces it. According to this view, as the successor of the GATT spearheaded by the most
powerful states in the aftermath of World War II, the WTO serves the purpose of contributing to
maximizing the power of the most powerful states.

Structural realists direct their focus to the systemic forces circumscribing state behavior,
thereby arguing that state behavior is determined by the imperative of responding to systemic
forces to ensure survival rather than by a lust for power inherent in human beings. They stress
diffidence and dismiss materialist competition and glory as drivers of behavior (albeit without
specifying alternative reasons for diffidence). In this framing, instead of being pursued for
egomaniacal reasons, power is pursued for the rather legitimate purpose of ensuring security.
Structural realists nonetheless diverge on how much power suffices for security assurance, albeit
that does not keep them from agreeing that “institutions have minimal influence on state
behavior” (Mearsheimer 1994, 7).
According to Kenneth Waltz’s conceptualization, states pursue just enough power to guarantee their security, and that is attainable by means of a security-maximizing combination of power capabilities and strategic alliances (Waltz 1979). Waltz argues that “The first concern of states is not to maximize power but to maintain their position in the system” (Waltz 1979, 126). Therefore, preponderant power is not necessary; all that is required for ensuring security is a balanced distribution of power, one which keeps the most powerful checked. As put by Joseph M. Grieco, states may be “called “defensive positionalists” interested in achieving and maintaining relative capabilities sufficient to remain secure and independent in the self-help context of international anarchy” (Grieco 1993, 303). Achieving that involves mainly preventing unsettling changes in power capabilities. As changes in the distribution of power generate security-threatening instability because they take the system off balance, states must both abstain from pursuing relative power gains and be vigilant to ensure others are not pursuing that. In this perspective, Joseph M. Grieco argued that rather than increasing their power to improve their position, “the fundamental goal of states in any relationship is to prevent others from achieving advances in their relative capabilities” (Grieco 1988: 498). This primacy attributed to the preservation of the ‘distribution of positionalities’ in promoting security generates a view of international institutions distinct from those of classical realism and of the ‘offensive’ variant of structural realism discussed next. For the latter two, international institutions are tools that serve the powerful in their pursuit of preponderance, whereas by dismissing such pursuit the defensive variant of realism suggests that international institutions serve instead to ensure security, with that objective being achieved not through gains in relative power but by their absence. To serve in such a way institutions may enable absolute gains but must prevent relative gains; they must preserve not simply who is more powerful (which can occur with power asymmetries being
widened) but specifically how powerful each state is relative to others. Whereas they may obtain absolute gains, both the most powerful and all other states must be restrained in their ability to accrue relative gains. Some measure of gains or losses inevitably occur, but it is inferable that they would be acceptable insofar as they are limited to a level which does not compromise the security of an individual state and the overall balance of power, and can be compensated for with strategic reshufflings of alliances.

Moreover, as relative losses in power capabilities are acceptable in this framing – a framing in which security is not seen as solely or necessarily centrally dependent on one’s own power capabilities -- it is inferable that, ceteris paribus, as alterations in the security environment may alter calculations about the scope of power capabilities needed to guarantee a state’s security, they correspondingly make the state open to changes in relative power. In this perspective, a reduction in its perceptions of threat may make a state accepting of relative losses in power capabilities if it has no reason to see those losses as deteriorating its security. In sum, if security is the central concern, and the possession of superior power capabilities is not deemed the sole guarantor of security, the security environment plays a critical role in determining the levels of relative power capabilities pursued. In this context, depending on the circumstances under which it takes place, relative decline can coexist with the preservation or even the increase of a state’s security, even in the absence of alliance restructurings. This is the flipside of Stephen M. Walt’s (1985) argument about balancing behavior being instigated by perceptions of threat rather than merely by the distribution of power. According to Walt, power is not inherently aggressive, thus not posing a threat in the absence of offensive intentions. As the argument goes, it is the combination of power, particularly when including substantial offensive capabilities, with offensive intentions that constitute a threat which incites balancing behavior. Therefore,
relative power gains will only trigger a security dilemma dynamics when accompanied by offensive intentions; otherwise that dynamics is dissociated from shifts in relative power. That is, offensive intentions ‘weaponise’ power, which otherwise is innocuous. In this light, Walt’s (1985) argument refers to how power affects the dynamics of interstate relations differently depending upon whether or not it is accompanied by offensive intentions instigating perceived threats; it thus involves the character of power, which derives from how others interpret the potential ways its possessor might use it. In turn, the rationale developed above refers to how changes in perceptions of threat affect the perceived need for power; it thus involves the demand for power, which emanate from how its potential possessor assesses the levels of threat posed by others. Whereas this relationship between the security environment and the demand for power has been articulated in the literature (Knorr 1992), its implications for relative gains concerns and their corresponding systemic consequences as elaborated above have remained largely unappreciated.

In view of the implications of changes in the security environment for a state’s perceived need for power and its systemic consequences, international institutions acquire a security-enhancing utility not directly related to the distribution of power. Rather than playing a role directly related to the relative power capabilities of the most powerful states in the system, in this case international institutions may serve the most powerful states by helping reduce their need

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12 Power nonetheless carries a latent risk insofar as intentions may change; Walt’s argument thus must be qualified accordingly, being articulated beyond the static perspective of the present moment and the near future to include the prospects for change or continuity of intentions. In this perspective, the provision of credible reasons for the stability of non-offensive intentions plays a critical role in establishing the security environment and determining attitudes and behavior. Walt distinguishes offensive capabilities from offensive intentions, yet as pointed by Robert Jervis (1978), the nature of military capabilities aids the assessment of intentions. Beyond serving to assess intentions at a certain moment in time, the nature of military capabilities also helps assessing the stability of intentions insofar as certain military capabilities are not easily developed, albeit some are fungible enough to serve either offensive or defensive purposes. But parameters such as regime type, political climate, patterns of enmity and friendship, degrees of economic and security interdependence, and participation in and the credibility of commitments to regional and multilateral institutions provide more substantive means to assessing the prospective nature of intentions, especially in a longer time horizon.
for large power differentials. As power differentials are virtually impossible to retain short of full-blown imperial domination, this potential effect of international institutions on the need for power differentials might have greater utility than the hypothesis in line with the other two realist variants of international institutions concerning the levels of power capabilities possessed by the most powerful states in relation to others. Given that it refers to serviceable instances other than the retention or amassing of relative power, this utility makes the implications of the core tenets of the ‘defensive’ realist view for the role of international institutions closer to those of the neoliberal institutionalist view of international institutions than to those of its realist counterparts. That is particularly so given how issues other than relative gains, such as security and welfare, are not as exclusionary as relative gains concerns are.13

Yet irrespective of the role international institutions play when allowed to perform without interference, this ‘defensive’ realist view nonetheless leaves open the possibility that whenever faced with a situation which is found to be critical, the most powerful states may resort to their power advantage in dismissing existing international institutions. In this case, though not pursued indiscriminately, power still prevails, leaving institutions with not more than a marginal role according to the will of the most powerful. From this perspective, the ‘defensive’ realist view of the role of international institutions is in line with the other realist variants. However, if the privileging of security over command over power capabilities enables the complete erosion of power differentials without comprising security, this possibility ceases to exist. In light of these considerations, the ‘defensive’ realist rendering of international relations lends it itself to

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13 A focus on relative power with power understood as ineluctably carrying offensive intent as the main driver of state behavior involves a zero-sum framing of international relations which implicates on international relations (in every sphere) being characterized by a vicious cycle dynamics following a security dilemma rationale; according to this framing, shifts in power capabilities are inherently instability-prone. With power seen as dissociated from intent, security becomes non-zero-sum, thus involving the possibility of mutually beneficial developments notwithstanding changes in the distribution of power; according to this framing, shifts in power capabilities are not necessarily instability-prone.
views of the role of international institutions which are not as unique and straightforward as are the concurring views from the other two realist variants.

The other variant of structural realism, coined offensive realism by its most prominent contemporary defender, argues that states must try to maximize relative power “because that is the optimal way to maximize their security” (Mearsheimer 2001, 21). As pointed out by Hedley Bull in an assessment of Thomas Hobbes’ contribution to the realist tradition, “It is the motive of fear, leading to the search for security through superior power, which, more than competition for material goods or clashes of ideology, brings states into conflict with one another” (Bull 1981, 722). Likewise in the Waltzian view, power is not sought as an end but as a means to guaranteeing security. But in contrast to Waltz’s understanding, no measure of power other than preponderant power is understood to be sufficient to serve that purpose. Seen in this light, international institutions manifest the distribution of power and must play a role in increasing power asymmetries in favor of the most powerful states, otherwise states singularly driven to maximizing power that have the wherewithal to create international institutions would not do so. Essentially, in terms of their purported role it is a view of international institutions equal to that of classical realism, the distinction residing in the reason maximum power is pursued. According to this view the GATT would not have been created, and would not have evolved into the WTO, if it did not serve the purpose of maximizing the power of the most powerful states in the international system. Therefore, if the offensive realist interpretation of the role of international institutions is accurate, there should be evidence about the impact of the WTO consistent with it contributing to conserving or increasing existing asymmetries in the distribution of power in favor of the most powerful states in the system, even if not every gain translates into offensive military power.
Central to the realist view of international institutions is its conceptualization of the international system as constituted by the distribution of material power, especially military power. As it is shown in the next section (2.2), this is a narrow view that neglects a large part of the complex interweave of multi-dimensional forces underlying international relations, therefore being inappropriate for analyzing the dynamics of change in the international system.

**NEO-MARXISM, INTERNATIONAL INSTITUTIONS AND THE WTO**

Though recent developments especially in the constructivist camp have enriched it, the theoretical debate in the international relations discipline was crystallized in the past few decades as a showdown between neorealism and neoliberal institutionalism. Neo-Marxism remained at the margins, possibly because it has a narrower focus. It has remained more distant from broader international security implications than other theoretical schools, and was substantially discredited by the Asian developmental experience which came to fruition throughout the last three decades, with recent successful developmental experiences in other parts of the developing world and the struggles of the developed world to overcome the current state of crisis further challenging it. Yet, as referring to Immanuel Wallerstein’s (1974) conceptualization of the world capitalist system it is pertinent to the study of the international trade regime, though one could argue that it is subsumed by realism and neoliberal institutionalism, the discipline’s main materialistic perspectives, as well as by constructivism’s ideational perspective.

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14 With respect to the implications of relations of capitalist domination for international security, Lenin’s (1916) argument that imperialism constitutes the highest stage of capitalism carries security implications insofar as it anticipates the territorial division of the world among the greatest capitalist powers. Yet whereas some of Lenin’s other predictions have in part materialized, particularly those referring to the increase in the importance of financial capital, in what regards territorial control exactly the opposite of what Lenin predicted happened, with decolonization and the crystallization of national sovereignty taking place from the middle of the twentieth-century onwards.
Wallerstein’s core argument is that the capitalist world economy “is divided into core, periphery, and semi-periphery, which are linked together by unequal exchange and therefore are characterized by unequal development” (Wallerstein 1974). According to this rendering, the distribution of economic capabilities establishes a fairly deterministic division of labor though which the most powerful economies dominate the weaker economies, which have their prospects for development accordingly impaired. In his own words, Wallerstein’s “is a structural-functionalist perspective in which social relations of production are determined by market exchange rather than the other way around, and in which the international polity is at one and the same time an epiphenomenal byproduct of intercapitalist competition and the necessary condition for the existence and continual survival of capitalism” (Wallerstein 1974). Seen through this prism, international economic institutions are created not simply because they serve the prevailing capitalist forces, but also because the institutionalization of relations of capitalist domination is necessary for the endurance and prosperity of the capitalist world economy from which they benefit. The WTO befits this characterization inasmuch as it contributes to the institutionalization of international commercial relations and related domestic practices which are of capitalist character. Because the world capitalist system is understood to be characterized by an exploitative division of labor, it is inferable that by contributing to perpetuating the system the WTO contributes to supporting existing relations of capitalist domination.

In line with that, it has been argued that the WTO agreements constitute a straitjacket to developing countries, constraining their prospects for development because they deny them the developmental pathway developed countries followed (Chang 2002, Wade 2003). This argument is based on an understanding derived from trajectory of the first countries to achieve high levels of industrial development, namely that the economy develops according to a specific set of
incremental stages – from pastoral to agriculture to agriculture and manufacturing to agriculture, manufacturing and commerce (List 1841). As the state is understood to play a crucial role in guiding that process, any impairment in its ability to enact the proper policies constitutes a deterioration of the prospects for development. Thus, according to this rationale, given that the WTO agreements curb the policy space especially for protecting infant industries and absorbing technologies, they impose limitations on the range of policy options that developing countries have, and which were not faced by developed countries as they developed. These limitations have been identified as akin to “kicking away the ladder” for developing countries to follow the steps of developed countries (List 1841; Chang 2002). This in turn carries consequences for the distribution of power inasmuch as power assets are contingent on economic capabilities.

Therefore, viewing the WTO as contributing to the preservation or exacerbation of relations of economic domination signifies understanding that it plays a role in preserving or increasing asymmetries in economic power. As economic power is one of the core elements of international political power, the neo-Marxist view of the role of the WTO can be understood to be subsumed by especially the realist view of the role of the WTO. Whereas it provides a greater level of specification of how power, in this case economic power, affects and is affected by international institutions, that makes its conceptualization of the international system narrower, and thus even more limited, than that of realists. The main point, that international institutions both manifest and serve the distribution of power, is nonetheless common to that of realism.

NEOLIBERAL INSTITUTIONALISM, INTERNATIONAL INSTITUTIONS AND THE WTO

Addressing the development of neorealism and neoliberal institutionalism as competing theories of international relations, Robert O. Keohane indicated that “Much of the contemporary
debate centers on the validity of the institutionalist claim that international regimes, and institutions more broadly, have become significant in world politics” (Keohane 1993, 272). Neoliberal institutionalism views international institutions as more than manifestations of power differentials, thereby understanding that they may affect international relations in ways dissociated from the distribution of power. For this reason they are deemed significant, significance thus being defined not simply as the ability to affect international affairs, but more precisely as the ability to interfere with the dictates of power asymmetries in international affairs. Affecting international affairs thus means generating effects diverging from those that would be obtained from the unbridled operation of power differentials. But neoliberal institutionalists do not ascribe significance to international institutions just for that; for them, beyond having the ability to interfere in the dynamics of international power politics, international institutions are “essential if states are to have any hope of sustained cooperation, and of reaping its benefits” (Keohane and Martin 1995, 50). Therefore, central to the neoliberal institutionalist view of international relations is the concern with how “institutions, broadly defined, affect the patterns of cooperation that emerge” (Keohane 1984, 9). In this light, international regimes are seen as “intermediate factors [that help] to account for cooperation and discord” (Keohane 1984: 64).

Neoliberal institutionalists make clear that they do not dismiss the prevalence of power asymmetries in international politics; they do not claim that international institutions eclipse the distribution of power, but instead that they “sometimes matter” (Keohane and Martin 1995, 40), meaning that in certain cases they generate outcomes which would not occur without them playing a role in both mitigating returns to power and facilitating the coordination of actions around common interests. Those outcomes are understood as mutually beneficial as contrasted with those which would otherwise result from unfiltered relations involving power asymmetries,
which in their view could in fact be less productive even to the most powerful in the long term. Institutionalist theory thus has a normative component geared towards peace and welfare, contrasting with realism’s “emphasis on the acceptance of facts” rather than on the role of purpose, as pointed by Edward H. Carr (1939). But at the same time it is “utilitarian and rationalistic” so as to recognize that the necessity for institutions due to their prospective utilities “does not mean that they are always valuable, much less that they operate without respect to power and interests, constitute a panacea for violent conduct, or always reduce the likelihood of war” (Keohane and Martin 1995, 50). The key point is that even though power differentials are central, “international institutions change rational calculations of interest and facilitate mutually advantageous bargains among independent states” (Keohane 1984, 184). Such utility makes it possible for institutions to decouple from the dictates of power asymmetries, allowing them to, even if only in certain cases, function dissociated from the distribution of power, as well as to develop a staying power above shifts in the distribution of power (Ikenberry 1999).

With respect to the WTO in particular, its main utility as an international institution comes from the fact that it both facilitates the creation of and sets up a clear and agreed-upon framework for international trade relations that is non-discriminatory and provides a measure of stability and predictability. According to its own rendering, one of the main benefits from the WTO is that an international trade system “based on rules rather than power makes life easier for all.” As it is a consensus-based multilateral organization, smaller countries have much more voice in the creation of the rules governing international trade relations than they otherwise would have. Likewise, as disputes are resolved through a rule-based institutionalized mechanism, smaller countries are less vulnerable to the implications of economic asymmetries than it would otherwise be the case. At the same time, the WTO frees “major powers from the complexity of

15 WTO: 10 Benefits from the WTO, pg. 4
having to negotiate trade agreements with each of their numerous trading partners.”\textsuperscript{16} Such tradeoff nonetheless leaves open the possibility of the WTO contributing to less powerful countries obtaining results from their trade relations which they would not otherwise, which may allow them to accrue relative gains in economic capabilities that otherwise would have been much more difficult to attain. In this case, the WTO may contribute to the generation of impacts which change the distribution of power against the most powerful states. Even if they benefit from a tradeoff which grants benefits other than direct relative economic gains, there is just so much erosion of their relative economic advantages that the most powerful states can sustain before having their positions compromised. As elaborated above in the discussion about defensive realism, this may happen without compromising the state’s security, but it nonetheless affects the state’s ability to influence international affairs.\textsuperscript{17} Therefore, if it works in line with the neoliberal institutionalist view, not only may the WTO produce results distinct from those that would have been dictated by power asymmetries, but those results may also contribute to changing the distribution of power in the international system in favor of countries other than the most powerful, thereby possibly producing transformational changes in the international system.

Neoliberal institutionalists recognize that beyond harboring the possibility of results inconsistent with the distribution of power in the system, international institutions such as the WTO affect the medium for and the patterns of behavior. Yet, conceiving the international system as composed by the distribution of material assets, much like realists and neo-Marxists do, they nonetheless fail to recognize that as an impact in the constitution of the system, and to situate that within other forces of change in the system.

\textsuperscript{16} WTO: 10 Benefits from the WTO, pg. 4
\textsuperscript{17} In a classical and offensive realist framing, the erosion of influence is tantamount to the deterioration of security because influence derives from power capabilities which are understood to inherently carry offensive intent, but with power and the influence it buys seen as dissociated from intent, the erosion of influence is not necessarily security-impairing.
The views presented above of the role played by the WTO deriving from different theoretical schools can be summarized in two distinct narratives. In the first, the WTO constitutes an extension of the distribution of power, serving the most powerful in securing their privileged position by either helping them to amass more power relative to others or preventing others from amassing power relative to them. In the second, the WTO, though descending from an initiative spearheaded by the most powerful states in the aftermath of World War II, exists and operates fairly independently from the dictates of power asymmetries, serving to institutionalize rules which represent multilateral rather than narrow power-oriented interests. In doing so it may nonetheless serve the interests of the most powerful, but in ways not related to the preservation or augmentation of their relative power advantage, and entailing impacts also of utility to other states in the system. These two narratives are not restricted to scholarly circles; each has a correlate in popular discourse which carries domestic and international political implications.

Because these narratives are products of deductive reasoning lacking empirical confirmation, they remain unsubstantiated. Indeed, they can only exist simultaneously exactly because without robust empirical evidence neither one of them is either positively supported or categorically dismissed. This allows these competing views to endure in a way that if an analyst were presented with both narratives without the identity of the WTO being shared, the analyst would most likely think that two completely unique institutions were being referenced. Thus, according to the prevailing narratives the story of the role of the WTO is a tale of two distinct fictions. These fictions can be characterized as one which asserts that power prevails and another according to which rules prevail. According to the former the WTO is subservient to the most
powerful states in the system. Three general impacts can be derived from that: the WTO helps increasing the power advantage of the most powerful states; the WTO helps preserving the power advantage of the most powerful states; and the WTO allows some erosion of economic power of the most powerful states, but it is only marginal and is compensated by gains in other spheres which guarantee at least the preservation of their overall power advantage. Insofar as the international system is understood as centered on the distribution of power capabilities, these impacts accordingly have a conservative character with respect to the international system.

By contrast, according to the latter view power has no say at the WTO, which truly functions as an unbiased multilateral organization serving multilateral interests related to the coordination of international trade and trade-related issues. Multiple impacts can be obtained from that, which signify that the effect of the WTO on the international system is open. This makes it most straightforward to test the narrative entailing a conservative effect on the international system with the objective of shedding light onto which of them is the closest to reality. Table 2.1 below summarizes the tale of two WTOs.

<table>
<thead>
<tr>
<th>Narrative’s Core</th>
<th>WTO’s role</th>
<th>Effect on the International System</th>
<th>Related IR theories</th>
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<tbody>
<tr>
<td>Power prevails</td>
<td>Helping preserve or increase the economic advantage of the most powerful states</td>
<td>Conservative</td>
<td>Classical realism</td>
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<td></td>
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<td>Offensive realism</td>
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<td>Neo-Marxism</td>
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<td></td>
<td></td>
<td></td>
<td>Defensive realism</td>
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<tr>
<td>Rules prevail</td>
<td>Institutionalizing rules reflecting multilateral interests</td>
<td>Open</td>
<td>Neoliberal</td>
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<td></td>
<td></td>
<td>Institutionalism</td>
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The tale of two WTOs epitomizes how the debate over the role of international institutions has been overly concentrated on the theoretical underpinnings of the core competing
narratives about it, keeping them mainly unchecked with respect to empirical evidence of their ultimate systemic impact. Recently there has been progress in line with Robert O. Keohane’s call for orienting scholarship towards the exploration of “the extent, strength, and content of international institutions, examining how, not merely whether, they make a difference” (Keohane 1993, 273). But the state of the literature is nowhere near a definition about what role international institutions play in international affairs. Particularly about the WTO, recent analyses have explored multiple avenues, ranging from the political economy of negotiation rounds and the potential consequences of WTO agreements in terms of prospects for development (Wade 2003; Weiss 2005; Gallagher 2008), to the factors informing the initiation of trade disputes (Hudec 1993) and affecting the adjudication of disputes (e.g. Busch and Reinhardt 2002). Other avenues include examining the factors influencing the implementation of dispute resolution reports (e.g. Busch and Reinhardt 2003; van den Broek 2003; Choi 2007) and the outcomes from the disputes (e.g. Hudec 1993; Bown 2004b). However, important as they are, these are just initial steps towards better understanding how the WTO operates and what are the consequences of that. Moreover, no systematic assessment exists combining findings about specific aspects and situating them in the dynamics of change in the international system. In part that is due to the very complexity of such an assessment, but notwithstanding how challenging it is, this focus is imperative for substantiating the debate over the role of international institutions. Accordingly, the core objective of this research project is to contribute to illuminating the debates over the role of the WTO in particular, and of international institutions more broadly, by systematically addressing the impacts of the WTO in the international system.
2.2. Change and Continuity in the International System and the Role of the WTO:

The tale of two World Trade Organizations (WTO) described in the preceding section involves two distinct views of whether and how the WTO affects change and continuity in the international system. Determining whether any narrative is appropriate, and which narrative is best supported by practice thus requires first situating the WTO within the dynamics of change in the international system. That is, the first question to answer is how to conceive of the role of the WTO in the international system. Properly addressing this question enables identifying which possible effects the WTO may have in the international system, accordingly specifying where to look for substantive effects the determination of which is imperative to systematically evaluating the impacts of the WTO in the international system. Accordingly, this section lays down the conceptual bases for assessing the role the WTO plays in the dynamics of change in the international system in the following chapters.

THE INTERNATIONAL SYSTEM

The first task in establishing a conceptual rendering of the dynamics of change in the international system is to specify what is meant by the international system. The term ‘international system’ is ordinarily used without much heed to its meaning, broadly referring to the arena for international relations. Yet, even in its most inadvertent, everyday usage, the term ‘international system’ normally carries a lot more meaning than simply ‘what is out there beyond our borders’ or ‘the international arena where we find ourselves.’ Beyond merely referring broadly to the international environment which circumscribes every aspect of human activity, the term is normally loaded (either consciously or less so) with basic understandings of what
constitutes that environment. Even when usage is oblivious to a precise meaning, there is a general sense that the term refers to structural drivers and conditioners affecting states and their interactions, even though most people lack a clear sense of what are such drivers and conditioners and how they affect states and the interactions among them. The basic notion of an overarching structural setting circumscribing the actions of and interactions among states involves the perception that states are constitutive parts of the system and that so are international institutions, but most importantly, it generally includes a realization that states are not equal and a corresponding sense that differences in the ability of each state to affect others play a role in determining that structural setting. Certainly there is wide variation from person to person on how sophisticated is this articulation at the primary level of objective consciousness, but these aspects are elemental enough to in most cases obtain such basic notion of the international system even if worked out of the most generic information and perceptions of international affairs at levels below that of objective consciousness. In its ordinary use it is thus by and large implied that the term ‘international system’ minimally refers structurally to the collection of states and their institutionalized channels of interaction, and functionally to the existing interrelationships among them and the role each state plays in them. It may also include non-state actors, but states (and by extension, albeit less centrally, interstate institutions) are conventionally perceived as the primary elements of the system. Therefore, ordinary understandings of the international system carry some sense of the basic elements of the system and their interrelationships, although in most cases they reflect general impressions rather than meticulously pondered conceptualizations.

The scholarly conceptualizations of the international system within the discipline of international relations provide instrumental conceptual clarity, but as is generally the case in the
social sciences, precision relates to a worldview articulated in a theoretical current and not to an absolute truth. Yet, there is a good deal of convergence on the core elements of the international system among international relations scholars. Essentially, the international system is understood as a system of states that operate within a fundamental background condition of anarchy. States are recognized to have distinct capabilities, broadly meaning the assets they command to conduct their domestic and international affairs, and it is largely agreed that the distribution of capabilities across states plays a central role in the structuring and functioning of the international system. The core source of disagreement resides on the extension of the role played by the distribution of capabilities, which include whether or not distinctions among states other than about capabilities and elements other than states are also relevant. Anarchy, normally treated as an assumption but perhaps the singular self-evident fact in international affairs, means the absence of a central global authority. It signifies that states operate in a self-help environment in which their survival and other objectives depend upon “the means they can generate and the arrangements they can make for themselves” (Waltz 1979, 111). It is debatable whether this condition of self-help is an intrinsic feature of anarchy or is contingent on what states make of anarchy because “structure has no existence or causal powers apart from process” (Wendt 1992, 394). But there is hardly any dispute among international relations scholars that the lack of a central governing authority is a fundamental characteristic of the environment for international affairs.

The international environment in turn may or may not be understood to integrate the international system. Kenneth Waltz (1979) specifies the international system according to three constitutive elements: the system’s ordering principle, the functions performed by the participants in the system, and the distribution of capabilities among them. As the international
system’s ordering principle, in this view anarchy is a constitutive element of the system, one without which the system cannot be explained. Conversely, a system may be defined “in contradistinction to its environment” (Kaplan 1957, 4). The emphasis in this case is on the set of variables which integrate the system and the interrelationships among them, with the environment understood as extrinsic to both. This implies the existence of “some identifiable boundaries that separate [the system] from its environment” (McClelland 1966, 20). Anarchy, in this context, is not integral to the international system, which means that the international system exists in disconnection from and can be understood without it. This later view, however, is in complete dissonance with the understanding of international relations theorists that the context in which states operate is essential for explaining international relations. Indeed, save from an unrealistic scenario in which the environment is totally null, a cyclical feedback effect between the environment and the variables in a system and their interrelationships is unavoidable. To fully account for the constitutive elements of the international system rather than remaining limited to describing the state of the system at a given moment in time, a conceptualization of the international system must therefore include the international environment.

A feature of international systems about which there is virtual consensus among both international relations theorists (who are centrally concerned with state behavior within the international system) and students of the international system in particular (who are centrally concerned with what constitutes an international system and the processes through which it is transformed) is that states are fundamental units comprising the system. The centrality of states is recognized even by those who identify other elements as relevant (e.g. Keohane and Martin 1995), and it follows from the relational context in which states exist that what chiefly matters is each state’s capacity to influence others and to resist influencing from others. That is so because
in a state-centric perspective, the capabilities that states command to those ends determine the universe of possibilities for each and every one of them. One way of thinking about the international system in this perspective is that it is defined by the degrees of freedom that states have to do as they will. Knowing the distribution of capabilities within it is thus essential for specifying an international system. Yet, there is no consensus either on which state attributes constitute pertinent capabilities or on whether the distribution of capabilities suffices to define an international system.

Whereas it is largely agreed that economic and military capabilities are fundamental, there is substantial debate on whether or not they are exhaustive. For instance, in articulating the rationale for his three-element conceptualization of the international system, Kenneth Waltz asserted that “[d]efinitions of structure must omit the attributes and the relations of units” (Waltz 1979, 40). Several difficulties with Waltz’s conceptualization have been raised. For one, “How is it possible to consider the distribution of capabilities distinct from the attributes of the units?” (Zinnes 1980, 8). As it is self-evident that a state’s capabilities come from its attributes, it seems that Waltz was concerned with which attributes of states translate into system-relevant capabilities; those attributes that in Waltz’s view did translate he treated as capabilities, and those attributes that in his view did not translate he treated as inconsequential attributes. Accordingly, perhaps the point is not that Waltz’s conceptualization of the international system is problematic because capabilities and attributes are interrelated, but that Waltz was not clear enough about the fact that he was distinguishing between attributes that he considered to matter for the international system and those that he considered irrelevant for the international system. Therefore, the major point of contention must reside on the criteria for distinguishing system-relevant attributes from those that are marginal or innocuous. In this view, the most prominent
attribute dismissed by Waltz that is found to be of consequence to international systems by a number of other scholars is the type of government that states have (e.g. Luard 1976; Holsti 1977). In particular, an entire body of scholarship has developed based on the historical record suggesting that democracies seldom fight each other (e.g. Chan 1984; Doyle 1986; Maoz and Russett 1993; Owen 2006), which posits the implication that it matters for each state individually and the system as a whole both whether a single state is democratic and how many states are democratic compared to the number of non-democratic ones. This democratic peace argument is not free of contention (e.g. Layne 1994; Farber and Gowa 1997; Maoz 1997), but the observation of the absence of war between democracies so far has held as the number of democracies has continuously increased.  

The upholding of the democratic peace expectation in such context strengthens it since the increase in the number of democracies increases the probability that conflicts will involve democratic states, thus increasing the number of potential conflicts which could escalate to warfare. This is all the more relevant given that many are still infant, fragile democracies.

Another critique to Waltz’s conceptualization is that, as pointed by Barry Jones, although the “distribution of actors’ capabilities clearly constitutes a structural characteristic, […] it is far from evident that other features of states, and their interactions, cannot acquire structural connotations when aggregated empirically and analytically” (Jones 1981, 14). State objectives which resonate across the international system and become (formally or informally) institutionalized, Jones argues, must be incorporated into a structural analysis since they are consequential to the system. In addition to that, in the same way that the international system is inalienable from the international context, it is questionable whether it can be dissociated from

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18 According to the Polity IV Project, from 1991 onwards the number of democracies in the world surpassed the number on non-democracies for the first time, and since then democracy has continued to spread worldwide. See: http://www.systemicpeace.org/polity/polity4.htm, Accessed Feb 2011
the relations among its units. Patterned and especially institutionalized interactions establish channels for interactions and codes of conduct which shape behavior and expectations. As noted by A.F.K. Organski in remarks about international orders, patterns of interactions normally become standardized, wherein “[t]here are rules of diplomacy; there are even rules of war” (Organski 1958, 316). The international stage is thus made different than it otherwise would be by norms and patterns of interaction.

In an attempt to overcome the limitations of static conceptualizations of the international system, Barry Jones offers a model distinguishing yet depicting the interrelationships between relational and capability structures. The former includes three elements: “the ordering principles […]; the modal tendencies – objectives pursued and practices adopted – exhibited by various participants; and the types, and patterns, of outcomes characteristically revealed” (Jones 1981, 16). The system’s capability structure influences the system’s ordering principles and outcomes and in turn is influenced by both the relevance it is given according to modal tendencies and the kinds and distribution of outcomes. This conceptualization thus accounts not only for the constitutive elements of the international system but also for the general dynamics interconnecting them. As in Waltz’s, this conceptualization includes the system’s ordering principle and the distribution of capabilities. But rather than just adding the functions played by each state, which can be seen as extensions of their capabilities that thus bring little explanatory value, it incorporates objectives and patterns of behavior and how each of all of these elements dynamically affects each other. Whereas identifiable functions are merely descriptive, objectives and patterns of behavior substantiate the states’ functional roles and affect the context of interactions. Waltz perhaps saw no need to incorporate state objectives in his conceptualization because he deduced from the international environment a single overarching objective: survival.
In this view, the core orientation of behavior in the international system is a direct function of the system’s environment, and specific behavior derives from how the distribution of capabilities affects countries in the pursuit of such core orientation. Given that a single and unchanging objective orients each and every state’s behavior, all one needs to be concerned with to understand and explain international relations is the distribution of capabilities in the system and their security implications. Following from this view, it is unsurprising that Waltz’s conceptualization of the international system stresses anarchy and the distribution of capabilities. Yet, as elaborated above, making the distinction between power and intention brings greater complexity, accordingly requiring knowledge of intentions in order to properly account for systemic incentives. In this case intentions figure as explicit systemic incentives integral to the dynamics of the international system, whereas in classical and structural realist conceptualizations of the international system systemic incentives are constitutive elements implied from power as it is viewed as inherently offensive.

Anarchy is behind the system’s driving force – security competition for survival – also in John Mearsheimer’s (2001) concept of offensive realism, with the only distinction between Waltz’s and Mearsheimer’s realist theories residing on whether or not becoming predominant is the only way for a state to assure its security. In these structural theories, anarchy is the causal source of behavior; the study of international relations is thus the study of how states respond to anarchy. In contrast, in Hans Morgenthau’s ‘classical realism’ anarchy “is treated as a second-order cause of state behavior [and the] principal driving force in international politics is the will to power inherent in every state in the system, as it pushes each of them to strive for supremacy” (Mearsheimer 2001, 19). Accordingly, Morgenthau (1967) nonetheless also attributes a single, exhaustive and inescapable objective to states, one which is intrinsic to states as they are led by
human beings, as contrasted with the one attributed by structural realists deriving from the trying reality to which states belong. And also as in the two structural realist variants, in Morgenthau’s view the distribution of capabilities as translated into international power is the core defining feature of the international system since it determines what states ‘can do’ and what they ‘must do,’ to paraphrase Thucydides. Therefore, all realist variants share the same virtues and shortcomings in terms of their conceptualizations of the international system.

Acknowledging the limitations of conceptualizations of the international system that overemphasize the distribution of capabilities, Dina Zinnes (1981) proposed a conceptualization based on four ‘composite’ and three ‘configurational’ variables. Zinnes recognizes the number of states in the system and the distribution of power among them as the two most important of the composite variables, but in articulating those within a broader set of variables she creates a more inclusive and nuanced account of the international system. At first thought normally taken to signify the size of the system, the number of states in the system can have more specific meanings. The size of the system is a concept that in the past, when there existed fairly confined sets of city-states or states, referred to systems that were by and large tantamount to the international system as far as its participant units were concerned. In the contemporary era system size is often used in reference to sub-sets of the international system, or sub-systems, which entail a distinctive dynamics but recognizably integrate the broader international system. This usage is thus secondary for the purpose of conceptualizing the international system. For such purpose, a more consequential use is that referring to the number of great powers in the international system. Pointing out that the number of great powers in the international system is understood to have implications for the balance-of-power dynamics, Zinnes argues that “while theorists may differ with respect to the impact and consequences of system size, it is clear that
they believe this variable to be an important attribute of international systems” (Zinnes 1981, 9). However, in this usage it is not clear that system size constitutes anything substantially different than, and thus conceptually offers anything beyond, the distribution of power.

The second composite variable in Zinnes’ (1981) conceptualization is the distribution of power. As previously noted, even though there is no consensus among scholars on the extent to which the distribution of power affects the international system, they basically agree that it is important and most understand it to be the most relevant element defining an international system. Where Zinnes departs from structural-functional conceptualizations of the international system is in the two other composite variables she incorporates: the objectives of states in the system, in line with Jones’ (1980) conceptualization, and the type of government in the states in the system, which is an additional consequential attribute of states. One of the reasons behind why Zinnes included state objectives as an important systemic variable is that the objectives of governing elites and how they are willing to pursue them inform state behavior, therefore determining each state’s array of actual and potential actions with which every other state in the system is confronted (Luard 1976). In sharp contrast with realist conceptualizations of the international system, the underlying assumption in this notion is that the objectives of governing elites are distinct from (albeit they may at times be common to) the national interest and are both varied and varying. The other reason to consider state objectives is that even when the state is thought of as a unitary actor, save for binding presumptions of singularity, the national interest is multifaceted and varies in time and across countries, and different state objectives make for different international realities (Kaplan 1957). Most prominently, Andrew Moravcsik has argued that “what states want is the primary determinant of what they do” (Moravcsik 1997, 521). For Moravcsik, rather than capabilities, “on the margin, the binding constraint [for a state’s
international behavior] is generally ‘resolve’ or ‘determination’ – the willingness to mobilize and expend social resources for foreign policy purposes” (Moravcsik 1997, 524). According to this perspective, a will to, rather than the power to, constitutes the driver and defining feature of state behavior. Capabilities provide opportunity and impose constraints, but whether and how they are developed to begin with, and whether and how they are employed once developed, are contingent on interests and the preferences derived from them.

Finally, regime type matters because it circumscribes the nature and scope of action of states, affecting both how they are likely to pursue their objectives (whichever they might be) and how they are likely to react to the actions of others in their pursuit of their objectives. For instance, as noted by Robert Keohane, “Shifts in the policies or constitutional status of national governments can be extremely important – elections, coups d’état, and social revolutions may change the orientation of major states toward the world economy and therefore affect international economic regimes” (Keohane 1980, 135). The same is applicable to the security realm. In turn, expectations based on regime type and political orientation affect perceptions of threat and of prospects for relations in various areas, thereby influencing the reality understood by states as that to which they belong.

The three ‘configurational’ variables that Zinnes (1981) adds to these four ‘composite’ ones pay attention to the relationships between states as opposed to the characteristics of the states. The first one, the nature of the ties between states, is considered to be the most significant one. Whether states are related by patterns of enmity or friendship affect their patterns of interactions with single countries in particular and as a consequence of that with all other countries. Enmity with a certain country is likely to implicate enmity or at least more distant and perhaps more tense relations with one or more other countries with which that enemy is friend or
is allied. The same rationale applies for friendship ties. Those patterns of interaction inform assessments of expected behavior, which in turn influence the construct of the reality confronting states. According to Alexander Wendt, one of the reasons neorealism’s structural conceptualization of the international system is faulty is indeed that "it does not predict whether two states will be friends or foes, will recognize each other's sovereignty, will have dynastic ties, will be revisionist or status quo powers, and so on” (Wendt 1992, 396).

The second ‘configurational’ variable is the international institutional setting, which in the thirty years since Zinnes’ writing has gained substantially more prominence in the international relations literature. As noted in the previous section, international institutions are increasingly recognized as important, although their role is widely disputed. The last ‘configurational’ variable is state status, which refers to the perceptions about a state’s power capabilities as distinct from its actual power capabilities. Given that the reality that is acted upon is that which is perceived, a state’s status for power is of central consequence, especially in reference to the distribution of power when considering it as the main feature of an international system. This includes the implications of disparities between perceived and actual power capabilities (Lake 2011; Lane 2011).

Based on this discussion of the constitutive elements of international systems, it is not straightforward what constitutes such an element. A number of elements are found to be relevant by different scholars and there is neither agreement on which ones are relevant and must be integrated into a definition of it nor a clear appreciation of how relevant elements are interrelated. An ideal definition would include both the core constitutive elements of the system and the dynamic interconnections between them, including the systemic incentives they involve. Zinnes (1981) provides an instrumental conceptualization to that effect in line with her still valid
argument that “[an] unambiguous definition of an international system does not yet exist, but a usable working definition can be constructed” (Zinnes 1981, 8). Zinnes’ conceptualization provides an instrumental basis for understanding the international system, with the exception that the variable ‘number of states’ which is subsumed by the ‘distribution of power’ variable.

Accordingly, for the purposes of the analysis the international system is understood as defined by the distribution of power among states, the international status of states, state objectives, regime types adopted by states, the prevailing nature of the ties between states, and the international institutional framework, with the most relevant aspect of such group of elements being the dynamic incentives they generate. This signifies that investigating whether the WTO affects the international system essentially requires assessing whether it promotes alterations in each of these elements. These are compiled below in the framing of change in the international system into power assets, institutions, and incentives. In this conceptualization, power assets are defining features not for their own sake, but due to their implications for the dynamics of the system. That is, the constitutive role of power assets in the international system comes from how they affect the system’s embedded incentives – the drivers and conditioners confronting state and non-state actors in the system. The theoretical schools discussed in the previous section work with much narrower definitions of the international system which are manifest in their stressing of the distribution of power and international institutions, with the former largely understood as prevalent. As the following sections will evince, such definitions not only are incomplete, but most importantly, are correspondingly inadequate for understanding and analyzing developments in the international system.
A conceptualization of the international system centered in or giving substantial importance to the distribution of power begs the question of what constitutes power in the international system. Accordingly, defining what constitutes power in the international system is a fundamental requirement for determining how the WTO may affect the international system. Defining power enables identifying how the WTO relates to it and to its distribution, thereby making it possible to situate the WTO within the international system defined partially or centrally in terms of it.

Understanding the concept of power involves two core aspects: first and foremost, what it means; once that is established it is then possible to identify what are the sources of power, which are what make power recognizable, measurable. The meaning of power is elemental; defining what constitutes power requires considering what fundamental aspect of reality it represents. Most fundamentally, the aspect of reality captured by the concept of power is that of the capacity to affect reality. In that it is a capacity requires the specification of what it refers to; that is, a capacity is only meaningful in reference to something (Wagner 1969). In other words, conceiving of a capacity inherently involves what can be done with it. As the capacity to do something signifies the possession of the means to do something, power constitutes fundamentally a means, and its meaning comes from it enabling a certain effect over a particular aspect of reality. Talcott Parsons argued that power “does not itself possess utility in the primary consumption sense” (Parsons 1969[1963], 256). Since the concept of power derives its meaning from what it entitles its possessor to do, the possession of power is of utility for what it makes its possessor capable of; as a capacity, power has no utility dissociated from the effects it may produce.
Given that potential power holders exist in both a natural and social environment, a capacity ineluctably refers to having the condition to affect the natural and social environments. Accomplishing something inevitably involves something or someone which is affected in the process; having the capacity to do something therefore signifies that something or someone is being affected. Power is, therefore, a relational concept, which in its broadest sense involves a relative capability to affect the natural and social environments. That it refers to relative capabilities signifies that, as noted by Steven Lukes, “power is a potentiality, not an actuality – indeed a potentiality that may never be actualized” (Lukes 2005, 69). Commanding power signifies having the potential capability to affect something or someone as a consequence of its employment; it does not require its employment. Lukes also argues that “power should not be conceived narrowly as requiring intention, actual foresight, and positive actions (as opposed to failing to act): the power of the powerful consists in their being capable of and responsible for affecting (negatively or positively) the (subjective and/or objective) interests of others” (Lukes 2005, 68). From an essentialist perspective, power thus constitutes a capability to affect reality which does not necessitate actual manifestation, intention or anticipation of consequences.

Specific definitions of power relate to its exercise, that is, to ways in which it manifests itself, which are indeed what is most consequential from the perspective of the social sciences. They refer to specific instances in which power can be identified to be at work affecting reality, referring centrally to asymmetric relations between social entities. Steven Lukes (2005) provides a classification of them according to a framing of power as present in three dimensions which is instrumental for an overview of how to conceive of power with respect to the instances in which it is at work. The first dimension focuses on behavior, including the realm of decision-making about key issues which denote overt conflict and indicate who prevails, and the act of getting
something out of someone else. The prevailing notion is that power is a capability related to affecting the behavior of another. Locke, for instance, defined having power as “being able to make, or being able to receive, any change” (Locke 1975). Locke’s conceptualization suggests that having power signifies effecting or sustaining change, which imply the ability to both pursue and defend one’s interests. Conceiving of it as “a relation among people,” Robert A. Dahl defined power more narrowly yet more precisely as: “A has power over B to the extent that he can get B to do something that B would not otherwise do” (Dahl 1957, 80). Dahl emphasizes the ability to affect the behavior of another against its will (since one only has an effect over another if getting it to do what it would not in the absence of such interference). In that Dahl’s definition is specifically concerned with the ability to exert control over others which relates to the ability to pursue one’s interests. Analogously, William Domhoff defined power as the “capacity of some persons to produce intended and foreseen effects on others” (Domhoff 1967). Thus, though Dahl disagreed with William Domhoff on who commands power in the United States (Dahl 1961), their conceptualization of power is essentially similar. Along the same lines, concerned with the distribution of power in a national setting, C. Wright Mills conceived of power as the ability “to make decisions of national and international consequence” (Mills 1958, 32). Mills contended that those who have such ability can make history, whereas those that do not “tend increasingly to become the utensils of history-makers as well as the mere objects of history” (Mills 1958, 31). The central concern is with the ability to affect others, with key decision-makers singled out as the best positioned for that within the domestic political economy. In turn, Steven Lukes called attention to the ability to resist (and not simply to exert) power in behavioral definitions of it, and extending Locke’s definition, defined power as “being able to make or to receive any change, or to resist it” (Lukes 2005, 69).
The second dimension identified by Lukes focuses on agenda-setting. It adds to the behavioral conceptualizations the notion that control over what decisions are about also affect reality and determine whose interests prevail. Preventing issues from getting into a position in which they would be subject to decision-making allows those who have the condition to do that to make them into non-issues. For instance, according to Bachrach and Baratz, “to the extent that a person or group – consciously or unconsciously – creates or reinforces barriers to public airing of policy conflicts, that person or group has power” (Bachrach and Baratz 1970, 8). That power comes not from getting others to do something, but from affecting which interests prevail by interfering with which ones get a chance to compete in a decision-making process. Non-decisions, decisions which did not take place because issues never reached the sphere of decision-making, are as relevant as decisions in affecting reality and accordingly manifesting power at play making certain interests prevail. Therefore, in this conceptualization power is not actionable directly on the other; instead, it affects the playing field in which interests compete.

The third dimension of power identified by Lukes differs from the other two in that it is not readily observable. It refers to “the many ways in which potential issues are kept out of politics, whether through the operation of social forces and institutional practices or through individuals’ decisions” (Lukes 2005, 28). The main point is that people are not born in a social vacuum; instead, since the beginning of their lives people face a societal environment which circumscribes their options in life and affects their thinking of the options they have available to them and the very process of construction of the self. Lukes argued that “power as domination is the ability to constrain the choices of others, coercing them or securing their compliance, by impeding them from living as their own nature and judgment dictate” (Lukes 2005, 85). Spinoza argued that impaired judgment, as a consequence of the mind being possessed of its own right,
constrains one’s choices and thus constitutes domination. According to Spinoza, “since human power (potentia) must be judged by strength of mind rather than by vigor of body, it means that those whose reason is most powerful, and who are most guided thereby, are also the most fully possessed of their own right” (Spinoza 1958 [1677], 275). Power, as meaning freedom of mind, is the capacity to identify the extent to which a collection of societal forces determines why things are the way they are and to correspondingly make decisions aware of how much they are determined and why. Foucault in turn questions the possibility of one being freed from being subject to power since the constitution of the self takes place through power because reality is a product of power. For Foucault, “the subject constitutes himself in an active fashion by the practices of self. These practices are not something the individual invents by himself but patterns that he finds in the culture and which are proposed, suggested and imposed on him by his culture, his society, and his social group” (Foucault 1987, 11). Power is pervasive and beyond the control of any person or group of persons, not least because them themselves are products of ongoing patterns of power which precede them.

In the study of international relations the prevailing conceptualizations of power belong to Luke’s first dimension; they conceive of power as a type of causation specifically referring to the behavior of others. David Baldwin noted that “In discussing power as type of causation, it is essential to specify or at least imply who is influencing whom with respect to what; in short, both scope and domain must be specified or implied” (Baldwin 1979, 163). Definitions of power which clearly specify agent and subject and the type and scope of causation involved in their relationship typically follow Dahl’s (1957) behavioral conceptualization of power. For instance, power has been defined as “the ability of an actor to get others to do something they otherwise would not do” (Keohane and Nye 1977, 11) or as “control over other actors” (Keohane 1984,
21), which can be understood as one and the same since having control over others signifies having the ability to affect their behavior regardless of their will. Alternatively, a focus not on the ability to cause change but on the ability to sustain change, as indicated by Locke also to be relevant, would have that power involves low sensitivity and particularly low vulnerability to change, according to the concepts proposed by Robert Keohane and Joseph Nye (1977). Beyond that, and in line with Lukes’ (2005) proposed expansion of Locke’s (1690) definition to include resistance to attempted changes, power can be conceived of as entailing both compellence and deterrence (Schelling 1960). The ability to deter others from doing something against one’s interests involves changing what would otherwise be the behavior of others, thus being analogous to the ability to compel others to do something. Given the nature of international politics, this specification is essential.

Power has also been conceptualized as “control over events and outcomes” (Hart 1976, 296), or “the actor’s simple ability to control and to obtain what it wants” (Rothgeb 1993, 22). The focus on control over outcomes rather than over actors stresses the returns from power, which can also be thought of as the ability to attain desired goals. This conceptualization emphasizes the utility gained from the exercise of power; it is about what one actually gets rather than about who one controls. Definitions focused on control over actors imply the attainment of objectives through control, but that nonetheless leaves their attainment uncertain. The conceptualization of power as control over events and outcomes in turn captures how consequential one’s capabilities are. Events constitute intermediate stages between activating capabilities and reaching outcomes, with an event possibly participating in more than one outcome and outcomes often resulting from more than a single event (Coleman 1973). According to Hart, because “normally actors have only partial control over events which are consequential
to them [and] some events are likely to be consequential for more than one actor, […] in general, actors tend to share control over events which are mutually consequential (Hart 1976, 297). Therefore, Hart concludes, “the most common form of control over events in contemporary international politics may be shared control over mutually consequential events” (Hart 1976, 297). Hart indicates this may be understood as a condition of interdependence, though he notes that attention to the nuances of the concept of interdependence are required in considering its consistency with the notion of shared control over events. Rather than “in terms of relationships that are costly for each party to forego” (Baldwin 1979, 176), interdependence in this context seems most appropriately conceptualized as mutual dependence on the combined contribution of the parties in order for a certain outcome to obtain. This is basically a recognition that control over any event, and thus over any outcome, is mutually contingent on each and every party involved. The degree of contingency in each party depends upon each one’s capabilities, interests, and will to employ capabilities towards interests or to zero in on certain interests irrespective of capabilities. But in lower or higher degrees, every party plays a role in the unfolding of an event and ultimately on its outcomes, which may or may not be obtained via combination with other events. Whereas this seems intuitive enough, it is a far cry from behavioral conceptualizations of power based on control over actors which assume total control by one over another, implying total control over any deriving event and its outcomes.

Yet another way power has been defined is as control over resources, in which case the type and scope of causation is implied rather than specified. In this perspective, Robert Gilpin argued that “power refers simply to the military, economic, and technological capabilities of states” (Gilpin 1981, 13). John J. Mearsheimer in turn points out military power as prevalent. For Mearsheimer, “States have two kinds of power: latent power and military power. […] Latent
power refers to socio-economic ingredients that go into building military power; it is largely based on a state’s wealth and the overall size of its population. […] In international politics, however, a state’s effective power is ultimately a function of its military forces and how they compare with the military forces of rival states” (Mearsheimer 2001, 55). Definitions like these based on control over resources assume that such resources confer the ability to affect the behavior of others in ways that events take place and their outcomes are in line with the preferences of those possessing the proper resources. However, resources do not translate automatically or entirely into an ability to affect behavior, and as indicated above, even if they did no actor has total control over events or outcomes. Moreover, the utility of resources, meaning the scope of the ability they grant, as well as over whom, may vary circumstantially, the reason why David Baldwin proposes “that power resources are situationally specific” (Baldwin 1979, 169). In this perspective, a qualification that must be made about military power according to Klaus Knorr is that:

“the ability of military strength to generate power over other countries, and hence the utility of military assets, is question of demand as well as supply. As with any other scarce resources, military capacity tends to be worth less when it is less in demand – as, for example – when relationships of aggressive confrontation between Great Powers and coalitions change to détente or to fundamentally peaceful relations” (Knorr 1992, 70).

What Knorr is suggesting is that having a capacity is only relevant in relation to a need for it; if not in need, a capacity is meaningless and can in fact work against its possessor, given that it constitutes a drain in its scarce resources impairing its ability to develop and sustain the capacities in demand. In addition to that, Knorr argues that capabilities in excess of the need for them may also “make other states feel less secure and induce them to add to their strength – a process of arms racing that precipitates further waste and also may reduce the military security of the overprepared country” (Knorr 1992, 79).
More fundamental than the contextual contingency of the utility of resources is that control over resources, in that it signifies control over sources of power, is distinct from what constitutes power. As put by Steven Lukes, “observing the exercise of power can give evidence of its possession, and counting power resources can be a clue to its distribution, but power is a capacity, and not the exercise or the vehicle of that capacity” (Lukes 2005, 70). Definitions of power based on control over resources thus represent specifications of the sources of power.

Even though power is most commonly (explicitly or implicitly) defined as control over actors, it is normally operationalized in terms of the sources of power. Therefore, the definitions of power as control over actors and as control over resources typically go hand-in-hand and in fact end up being fairly interchangeable given how power is treated in the theorizing of international relations. Accordingly, in that they operationalize power in terms of its sources and define the international system centrally according to the distribution of power, the materialist theoretical schools in international relations specify the international system according to the sources of power.

The sources of power can be thought of in terms of the power assets states have (Art 1996[2009]). States have several power assets; according to Art they include:

“population – the size, education level, and skills of its citizenry; geography – the size, location, and natural resource endowment of the state; governance – the effectiveness of its political system; values – the norms a state lives by and stands for, the nature of its ideology, and the extent of its appeal to foreigners; wealth – the level, sources, and nature of its productive economy; leadership – the political skill of its leaders and the number of skillful leaders it has; and military power – the nature, size, and composition of its military forces” (Art 1996 [2009]), 6).

Other authors mention some or all of these, with greater or lesser nuance about each specifically. For instance, John Mearsheimer highlights the United States’ position between two oceans as central in its ability to secure its homeland and amass power from a secured position
(Mearsheimer 2001). Considering its role for military strength, Klaus Knorr argued that “population size […] must be seen as severely limiting international rivalry of Great Power status at any one time” (Knorr 1992, 82). In turn, Joseph Nye called attention to the role of culture, political values, and the perceived legitimacy and moral authority of foreign policy as instrumental in one’s “ability to shape the preferences of others” so as to get them “to want the outcomes that you want” (Nye 2004, 5). This ‘soft power,’ as Nye puts it, is bound to incrementally increase in importance as public diplomacy becomes more relevant in the global information age (Nye 2004). In theoretical models, population, geography and governance, although recognized, are nonetheless eclipsed by the centrality ascribed to military and economic capabilities. Two reasons may explain why geography and governance are left at the margins: first, they are “the least versatile, because both are more in the nature of givens that set the physical and political context within which the other assets operate” (Art 1996[2009], 6); and second, because they are background elements, they are the ones farther from the practical realm of control over actors. Population, however, is a highly variable asset that is more closely related to the exercise of power; its relative marginalization thus at least partially signifies under-appreciation. Nonetheless, to some extent it is accounted for under both the economic domain given how human capital is central for economic performance and the military domain given the manpower component of military force.

As indicated above in the conceptualizations of power as control over resources, military and economic capabilities are identified as the key sources of power, with both being interrelated. Military force has been identified as “the ultima ratio of international politics” (Mearsheimer 2001: 56). Regardless of any other power assets states command and the ability to develop military power they confer, at any given moment a state’s ability to secure itself and
pursue its goals ultimately resides on its military force. If war breaks out, it is the military force the state has at that moment rather than the one it potentially can develop that is crucial to how it performs. The ability to sustain a war effort depends upon background conditions, but those are meaningless if the state lacks the wherewithal to face the first battles. Besides, beyond its use, the threat of the use of force also plays a central role in a state’s ability to compel or deter others. As put by Robert Art, “In anarchy, force is integral to foreign policy because military power can be wielded not only forcefully but also ‘peacefully’” (Art 1996[2009], 3). The peaceful use of military power involves everything short of warfare a state can do based on it; it is about coercion and persuasion, and given that most of the time states are not at war, “states use their military power more frequently in the peaceful rather than in the forceful mode” (Art 1996[2009], 3). For this reason Kenneth N. Waltz argued that “Military force has […] served not only as the ultima ratio of international politics but indeed as the first and most constant one” (Waltz 1967, 335).

The primacy of military power is evinced by the realization that even though a state can become a major power without top military power – as in present day Germany and Japan – no hegemonic power ever existed without superior military power. Indeed, in line with the variety of power assets, power and its distribution may be thought of as involving different domains, with only a sufficient level of power in the military and economic domains making hegemonic powers. But this also includes the realization that great powers have different strengths in different domains; according to Baldwin (1979), this is the reason why international power should be thought of as domain-specific rather than as an overall aggregate. According to Baldwin, this helps explaining “the paradox of unrealized power,” which refers to the fact that a great power does not always prevail in every policy sphere; it will tend to prevail in those policy
spheres which belong to the domains where it is stronger and will be less prevalent in those which belong to domains where its relative superiority is smaller or even questionable or lacking (Baldwin 1979). A power domain, however, may affect other domains. For instance, according to Robert Art, “military power becomes fungible because it produces effects outside the strictly military domain” (Art 1996[2009], 14). According to Art, military power affects other domains due to both spill-over effects, which refer to the repercussions of the successful use of military power for the overall political framework of interstate relations, and linkage politics, which refers to the deliberate linkage of military power to nonmilitary issues in order to attain greater leverage (Art 1996[2009]). Art’s rationale can be extended to other domains, albeit among them none is as analogous to the military domain as is the economic domain.

Among the multiple military power assets, nuclear weapons have a prominent place due to their unique devastation capacity and corresponding ability to establish deterrence. As noted by Kenneth Waltz, “Nuclear weapons strip conventional forces of most of their functions” (Waltz 1990, 739) and accordingly they “dissuade states from going to war more surely than conventional weapons do” (Waltz 1990, 743). Though in the absolute this is true, it is valid solely if and when an all-out war is considered, and at least so far the post-Cold War era has not seen anything near that. But the significance of nuclear weapons has been questioned more fundamentally: in a proto-Fukuyama (1991) argument specific to major war, John Mueller stated that rather than due to nuclear deterrence, the absence of great power war after World War II results from “a long-term trend away from war among developed countries and that the long peace since WWII is less a peculiarity of the nuclear age than the logical conclusion of a substantial historical process” (Mueller 1988, 261). According to Mueller, major war among ‘western’ modern states has become obsolete because it has become “subrationally unthinkable”
as a result of the historical lessons generating abhorrence to war that accumulated by the end of WWII (Mueller 1989). One critique to Mueller’s argument is that though offering a compelling thesis, “Mueller hardly explains the cultural change that has made wars unthinkable, and fails to explore the interconnections among cultural, political, and economic changes in the evolution of interstate war” (Kaysen 1990, 43). Beyond that, even if carrying some pertinence, Mueller’s argument has been challenged because it is not reconciled with the fact that “[t]he absolute quality of nuclear weapons sharply sets a nuclear world off from a conventional one” (Waltz 1990, 732). Superpower politics, Robert Jervis argued, is ineluctably influenced by nuclear stockpiles due to the magnitude of the devastation of a nuclear war, the assurance of mutual destruction, and the immediateness of the devastation (Jervis 1988). Indeed, it is intuitive that nuclear weapons at a minimum generate more caution given that “When the cost of seeking excessive gains is an increased probability of total destruction, moderation makes sense” (Jervis 1988, 81). This logic is applicable irrespective of the character of the international system – unipolar, bipolar, or multipolar – and is complicated by nuclear proliferation including non-advanced countries joining the nuclear club. Indeed, nuclear weapons allow a state to reach an exclusive sphere within the military power domain despite weaknesses in other military power assets. In addition to increased security, they accordingly allow a state relatively weak in other domains to attain international political clout it would not otherwise have in any domain given the spill-over and linkage effects from the possession of nuclear weapons.

The other key power asset is the state’s economic condition; however important, military power is contingent on economic capabilities. The ability to fund a military apparatus and military technological development depends upon a state’s economic condition (Art 1996[2009]). Additionally, superior economic conditions enhance a state’s ability to utilize
foreign economic relations to pursue national security goals (Baldwin and Milner 1992). This includes the state’s ability to affect the international economy, which impinges on the political autonomy, traditional values and social structures of states as well as on the balance of economic and military power, and whose shape, including the interdependencies it establishes, thus constitutes itself a form of economic and political power (Gilpin 1992). A state’s economic condition is so critical to its ability to develop and sustain military force and to overall ensure its security that even those who zero in on military force recognize that “the rise and fall of great powers over the past two centuries has been due in good part to changes in the distribution of wealth among the major actors in the international system” (Mearsheimer 2001, 57). Yet it is important to note that it is not simply wealth that constitutes a state’s economic condition; though related to it, wealth is not representative of economic condition, which involves a host of structural and dynamic material and institutional features. Wealth constitutes a partial indicator or at most serves as a proxy of economic condition, as it is often used. Therefore, it is changes in the economic condition of states that underline the rise and fall of states in the hierarchy of power in the international system.

A state’s economic condition, however, does not translate directly into assets that either themselves constitute economic power at the international political arena or can be converted into military power. According to John Mearsheimer, “it is impossible to simply equate wealth with military might” (Mearsheimer 2001: 82); the same is valid for economic condition in a more sophisticated view. Yet among all power assets a state’s economic condition is the most fungible one (Baldwin 1979; Art 1996[2009]). As noted by Art, “It is the easiest to convert into the most liquid asset of all, namely, money, which in turn can be used to buy many different things – such as good press, top-flight international negotiators, smart lawyers, cutting-edge
technology, bargaining power in international organizations, and so on” (Art 1996[2009], 6-7). This highlights not only how a state’s economic condition is central for its international power, but also how affecting international affairs is about more than the use of military force.

In keeping with the earlier discussion of what constitutes the international system, an additional issue related to power is that there is a distinction between actual power and perceived power. It is the state’s reputation for power, or its international prestige based on how it is perceivably ranked according to the distribution of power, that informs state behavior. “Prestige, rather than power, is the everyday currency of international relations, much as authority is the central ordering feature of domestic society” (Gilpin 1981, 31). Yet though not exactly matching it, perceptions of power are based on actual power; they involve assessments of both power assets and the exercise of power, which provide indication of control over resources, actors, and outcomes, thus contributing for the establishment of the state’s reputation for power.

In light of this discussion, power is treated as control over actors operationalized as control over resources, in line with how it is defined by the realist, neo-Marxist, and neoliberal institutionalist schools. Whereas this conceptualization it is deliberately pursued for being instrumental for assessing the role of the WTO in the international system, its limitations as pointed in the discussion above are recognized. Resources, or power assets, are considered to include population, geography, governance and military, economic, and soft power. The first three are considered background elements, in line with the discussion above; focus is thus placed on military, economic, and soft power as the core components of a state’s power as operationalized as control over power assets.

The different ways in which power assets may be used are characterized as the power tools states can draw from their power assets; they specify the actual meaning of power assets in
that they represent their potential practical utility. Theirs is a potential rather than actual utility because they constitute a capability; states decide whether or not and in which way to use them. In the domain of military power, for instance, these include the use of force and the threat of the use of force. Other domains likewise follow the discussion of power in the international system, as indicated in Figure 2.1 below, which details the adopted framing of power from assets to impacts. The instances of potential utility of the power assets states command generate dynamic incentives in the international system, which constitute the actual consequences of the distribution of power, thus being what is relevant for international relations. That is, the systemic significance of the distribution of power assets resides on how the positive and negative incentives it generates affect the behavior of state and non-state actors.

Power tools in turn take effect as specific policies, which represent the specific manners power tools can be directly utilized towards state goals. Given that specific policies serve certain purposes and not others, they can be understood as directly related to or identified with specific goals. Determining what can possibly be achieved by means of the policy manifestation of power assets thus illuminates state goals. Yet in general goals involve either compellence or deterrence geared towards either attaining gains or avoiding losses. What states want to effect, however, is not necessarily what they actually get. Policy outcomes constitute the actual results of the wielding of power assets in the form of specific policies. Finally, the consequences of these results, that is, how they affect the reality of the state is what ultimately matters in terms of what a state gets out of the power assets it possesses and chooses to use. They affect a state’s power assets – an effect on the supply of power – as well as the context for international relations – an effect on the demand for power.
The domain of power most closely related to the WTO is that of economic power. Accordingly, it is the one on which the next chapters will focus. The economic domain will be the core focus since the WTO involves international economic relations and their corresponding domestic issues and it is also the one with the most tangible impacts, however complex they are. As indicated in Figure 2.1, no domain of power is isolated from the others, so the focus on economic power is no dismissal of how it is affected by other domains and vice-versa.

The next section addresses the broader dynamics of change in the international system with a view to situating this framing of power into it. This will allow identifying the parts to which the WTO is related. Ensuing chapters will in turn address the implications of how the core elements of the WTO relate to the dynamics of change in the international system.
This section addresses what constitutes change in the international system. It builds on the previous sections, likewise contrasting the approach of the theoretical schools identified with the two distinct views of the WTO with broader insights in the literature. Yet compared to the previous sections, this one brings to bear more which is outside the scope of the theories of international relations related to the tale of two WTOs. This is because they are theories of state behavior within the international system rather than of how the international system works; they try to explain how states, given certain conditional parameters, will likely behave at any given moment, without explaining how those parameters change from one moment to another. Because at most they can offer only superficial explanations of change, Barry Buzan and Barry Jones have argued “that established theoretical approaches to the field [of international relations] have overemphasized continuity at the expense of change,” whereas “the nature of the subject of international relations requires that a more explicit and central theoretical role be assigned to change” (Buzan and Jones 1981, 2). Along these lines, Barry Jones argued that since “change remains a constant phenomena” in a world in which “dynamic interconnectedness” is prevalent, “it may be that in studying the patterns and processes of change more may be discovered of the nature of contemporary international relations than is possible through an approach that, however refined, remains wedded to the methodology of comparative statics” (Jones 1981, 19-20). Indeed, in keeping with Jones’ analogy, the literature on theories of international relations (IR) has developed fairly divorced from scholarship on change in the international system, a disconnect which severely limits the ability of the IR theories to account for change.

At the heart of their inability to explain change in the international system is the fact that the theories of international relations associated with the two competing views of the WTO
conceive of international relations as if the exercise of power were the sole or central mechanism affecting states and their condition in the international system. To be sure, the exercise of power affects both the distribution and institutional manifestation of power assets and the international context, which includes the embedded (positive and negative) incentives and the corresponding spectrum of possibilities and their anticipated consequences. However, many sources other than the exercise of power affect the development of power assets. As put by A.F.K. Organski in acknowledgment of how shifts in population, governance and economic development affect power assets, “internal changes of the most momentous sort are constantly occurring within modern nations, and many of these changes have great significance in terms of national power” (Organski 1958, 301; stress added). Part of those internal changes derive from or are somehow affected by the international interplay of the exercise of power by states in the system, and in fact hardly any country is insulated from external influence. But in a state system of sovereign states, control over the development of power assets nonetheless remains with each state, and their development depends centrally on the state’s internal efficiency in the allocation of resources towards that.

Though they recognize that power sources also change by means unrelated to the exercise of power in the international arena, in some cases even acknowledging that internal changes largely accounted for shifts in the distribution of power (e.g. Mearsheimer 2001), IR theorists focused on explaining state behavior leave out of their models factors other than a given collection of power assets at a certain moment, the exercise of the corresponding power, and international institutional elements related to that. There is, therefore, a disconnect between the recognition that the core sources of power asset transformation are internal and the outward-looking theoretical modeling of state behavior in the international system as involving state
positionality related to power assets, the wielding of power assets, and the implications of both for power asset development and distribution.

For the IR theories related to the tale of two WTOs, which define the international system in terms of the distribution of power, change in the international system inevitably means shifts in the distribution of power. More specifically, given how power is generally conceptualized, in these theories change in the international system comes about through changes in the distribution of power assets. As already noted, they at best provide only partial, superficial explanations for what is behind those changes; however, they do acknowledge that once they have occurred, such changes affect the hierarchy of prestige, and there has been substantial theoretical development in recent decades with respect to how changes in the distribution of power assets relate to changes in the system’s prevailing rules and rights as embedded in the international institutional framework. Indeed, if there is one area about which the IR theoretical approaches to explaining interstate relations do offer substantive explanations for what is behind change it is that of international regimes change.

Building on this overview, detailed discussion on the multiple aspects pertinent to what constitutes change in the international system can now proceed. The discussion below identifies which aspects are covered (and in which capacity) by the theoretical approaches related to the tale of two WTOs and highlights the many aspects they neglect. It accordingly demonstrates how their claims about the role of international institutions are superficial for lacking grounding on a substantive qualification of what constitutes change in the international system. The combination of this deficient account of what constitutes change with their incomplete account of what causes change puts in question their ability to provide satisfactory explanations of the role of international institutions. Essentially, as playing a role in the international system involves
having some effect on it, which signifies exacting some change, no substantiated claim about the role of any element – actor or factor – in the international system can be made without an inclusive account of change in the international system. The claims of the IR theories related to the tale of two WTOs are, therefore, questionable, because in sum the theories:

1. Provide a deficient account of what constitutes change in the international system;
2. Provide an incomplete account of what causes change in the international system.

Both are obviously interrelated, so they reinforce each other. Conversely, if these limitations are addressed, advances in one are constructive for the other.

The discussion is also instrumental for determining what must be assessed in order to test the theoretical claims associated with the two competing narratives of the WTO. First, and foremost, the discussion clarifies what constitutes change in the international system, identifying the multiple aspects involved and how they are interrelated. This enables developing an inclusive conceptualization of change in the international system. Second, such conceptualization provides the bases for clarifying the causes of change in the international system. Finally, with the causes of change clearly specified, it is possible to determine the ways in which the WTO possibly partakes in the process, that is, how the WTO may possibly cause change in the international system. This identifies how the WTO may have an impact in the international system, thus determining what to assess in order to test whether the effects the WTO are consistent with any of the theoretical claims behind the tale of two WTOs.

The first aspect to consider is ontological, concerning whether the nature of change is materialistic or perceptional. According to Joseph Frankel, the primordial issue about change is
“the fundamental phenomenological issue [of] whether we are concerned with change in reality – in our environment – or is change in the eye of the beholder, consisting of mere shift in our mental constructs imposed upon reality and/or in our expectations. Or should we be concerned with both these aspects, and if so, in what relationship?” (Frankel 1981, 232). The issue may also be framed as one about whether changes in the material reality or the socially constructed reality, or both, constitute changes in the international system. Given their ontological approach to the international system, realism, neo-Marxism, and neoliberal institutionalism are oriented towards a materialistic understanding of change. Conceiving of the international system as a function of the distribution of power, with power defined as control over resources which constitute power capabilities, they all concur with Robert Gilpin’s assertion that “the distribution of capabilities and the ways in which this distribution of capabilities changes over time are perhaps the most significant factors underlying the process of international political change” (Gilpin 1981, 86).

With their rational utilitarianism focused on the material reality, they pay little or no attention to the consequences for the international system of changes in ideas, perceptions and values and their effect on interests and intentions. As the previous section pointed out, power in the international system involves much more than control over resources conceived of as capabilities. Moreover, as power capabilities derive their meaning from the competing interests in the system, the focus on capabilities is limiting not simply because it is incomplete but because it neglects its own bases.

The other major issue that Frankel points out is that “there are several methodological problems of general application: do we attribute change to the rise of new elements, an alteration in the salience of previously discerned elements, or one in the structure of the system?” (Frankel 1981, 233). From the perspective of the materialistic conceptualizations of the international
system, which stress as the most significant elements in the system those states with the greatest power capabilities, the rise or decline of new elements represents changes in the system which alter its structure since it is defined by the distribution of capabilities. However, though intuitively straightforward, this notion is in fact extremely vague for a number of reasons. First, none of the IR theories qualifies the scope of changes in the distribution of power assets as they relate to changes in the international system. For their conceptualization of change in the international system to be meaningful, it requires qualifying the magnitude of the alteration in power capabilities that needs to take place to signify a system-relevant change. Such specification is not provided, leaving the identification of change in the international system as essentially an *ex post* overt matter. Second, new elements seldom, if ever, become relevant or irrelevant instantaneously; instead, their rise and decline normally occurs gradually over time. To account for change it is thus necessary to account for change in its elements directing them towards or away from system-relevance. Simply identifying major shifts when they ultimately materialize is of no utility to the understanding of change in the international system. In this perspective, change towards a sharply distinct reality of the international system constitutes system-relevant change. Indeed, rather than exceptional as it is commonly regarded, change is pervasive. What matters is, therefore, not whether change happens, but whether changes are salient to the point of being system-relevant. Accordingly, change in the international system is centrally a matter of *the implications to the system* of changes in its elements. Third, they do not specify how other elements of the system relate to changes in the international system, remaining limited to a general indication that they emanate from and affect power assets. They accordingly offer no means for discerning between the multiple possible developments from the isolated or combined effects of the several elements of and at work in the international system. Fourth, the
conceptualization of change centered on the distribution of power assets neglects the system’s embedded incentives, which though affected by its material structure, involve much more than that. Finally, as a consequence of these shortcomings, myriad aspects that are imperative for clearly specifying the international system and change in it are overlooked. The ensuing discussion highlights these limitations.

In an attempt to define the nature of change in the international system, Robert Gilpin specified three types of international changes: systems change, systemic change, and interaction change. According to Gilpin, “a systems change relates to the cost/benefit aspects of organizational membership and the ways in which economic, technological, and other developments affect the scale, efficiency, and viability of different types of political organizations” (Gilpin 1981, 42). Changes in the costs and benefits of engaging with the existing international organizations affect their utility to their members and their acceptability among non-members, thereby affecting the willingness of members to make use of and protect them and of non-members to join or seek redressing them. A systems change can thus be broadly thought of as a change in the (positive and negative) incentives underlying the relationship between states and the international institutional framework. In turn, Gilpin defines a systemic change as one entailing “changes in the distribution of power, the hierarchy of prestige, and the rules and rights embodied in the system” (Gilpin 1981, 42). Implying that in general these changes are interrelated yet noting that they “seldom, if ever, occur simultaneously,” Gilpin argues that “the focus of systemic change is the rise and decline of the dominant states or empires that govern the particular international system” (Gilpin 1981, 42). Gilpin places such change at the heart of his theory of international political change. Finally, interaction change, according to Gilpin, refers to “modifications in the political, economic, and other interactions or processes among the actors in
an international system” (Gilpin 1981, 43). Gilpin notes that though such changes may involve changes in rights and rules, they more fundamentally “frequently do result from the efforts of states or other actors to accelerate or forestall more fundamental changes in an international system and may presage such changes” (Gilpin 1981, 43). Yet, though noting that interactions among states in a state system are the essence of international relations, Gilpin deliberately leaves them at the sidelines.

Though instrumental in illuminating what constitutes change in the international system, Gilpin’s specification of these three types of change is misdirected. By placing emphasis on what is changing Gilpin overlooked the fact that the essence of change is not what changes, but the implications of what changes, which are in fact what makes any change relevant. For instance, changes in elements of a system which are inconsequential to the system do not constitute changes in the system; they are neither systemic nor system changes. Primary attention in assessing change in the international system must thus be given to whether, how and to which extent the system is affected. Gilpin’s distinction between systems change and systemic change is an attempt to capture the significance to the international system of changes in different elements. But such distinction based simply on the nature of the elements is insufficient to qualify whether and what kind of change takes place. What Gilpin defines as systemic changes cannot be dissociated from system changes because systemic changes inevitably implicate changes in the system’s embedded incentives, and embedded incentives involve much more than what pertains to the relationship between states and the international institutional framework. Though recognizing the difficulty of distinguishing between his proposed types of change because they are interrelated, instead of addressing their complex interrelation Gilpin glosses over it, thus in the end not clearly specifying change in the international system.
Given that an analysis of change in the international system requires sensitivity to the implications of changes to the system, a specification of ‘significance’ is an imperative. In this perspective, Barry Jones proposed distinguishing between “changes that are so considerable as to transform some essential part of [the] world; those changes that are significant and carry some transformational implications; changes that have considerable salience, are thus significant, but do not threaten transformations; and a gamut of developments that remain more or less insignificant” (Jones 1981, 17). Whereas Jones’ is an instrumental framework for distinguishing between distinct degrees of significance that alterations may have, it does not provide a clear specification of each of them. Jones’ conceptualization of the international system in terms of relational structures – ordering principles, modal tendencies, and outcomes – and capabilities structures – economic and financial resources, military forces, etc. – both stresses the pertinence and facilitates the operationalization of the notion that “Analysis of relational structures and capability structures, and comparisons between them, constitute a vital part both of any effective study of change and of the inherent dynamism within international relations” (Jones 1981, 16). Yet, though providing an auspicious springboard for the specification of a conceptual framework of change in the international system, Jones does not develop one. Indeed, while specifying sets of criteria of significance, Jones notes that they require “both a structural model and a clear theory of structural change” (Jones 1981, 18), which are not provided, leaving the degrees of significance and their relation to change in the international system unspecified.

The framework of change in the international system depicted in Figure 2.2 below and qualified ensuingly provides such specification, offering a conceptualization of change in the international system as a function of the scope of the alterations produced in it which is sufficiently inclusive and nuanced to be serviceable for analyzing change in the international
system. It borrows insights from both Gilpin (1981) and Jones (1981), adding other insights from the literature which contribute for greater precision in the specifications. The horizontal axis in Figure 2.2 essentially constitutes a definition of the international system as specified by its fundamental elements in line with the previous sections. Yet it in fact adds further nuance to the previous discussions in order to establish greater clarity about the implications of each element, and thus of changes in them, to the international system. Those qualifications are developed below as each degree of change in the system is discussed in detail. The vertical axis follows Jones’ (1981) distinctions between degrees of significance of changes, also aggregating further qualifications. Change in the international system is thus conceptualized as changes in the hierarchy of prestige, the norms and principles of the international institutional framework, and the system’s embedded incentives. These changes may derive from changes in the distribution of power assets but may also happen for reasons unrelated to the distribution of power.

**Figure 2.2: Change in the International System**

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The first type of change identified in Figure 2.2 (specification A) in fact refers to the absence of change in the international system. It involves changes in military, economic, or soft power assets which (isolated or combined) are insufficient to promote change in the hierarchy of prestige, the norms and principles of the institutional framework or the positive and negative incentives embedded in the system. As power assets change short of what would have consequences to the underlying forces – demands, opportunities and constraints – in the system, such changes represent merely marginal alterations without systemic repercussions, therefore being insignificant for the international system.

But a change in one or more power assets nonetheless is a change in one of the elements of the system, thereby being a change within the system. A distinction between change within the system and change of the system is, therefore, instrumental. A change within the system is a change in an element of the system, irrespective of its implications to the system. Such change may or may not have consequences for other elements and the dynamics of the system. If it does not change the system’s underlying incentives structure, it is inconsequential to the system. Therefore, changes within the system which do not change the forces driving and constraining activity in the system are not transformational. In turn, when a change within the system affects the fundamental forces orienting activity in the system, that is, the drivers and/or conditioners of activity in the system, it transforms the dynamics of the system, thus constituting a change of the system. In sum, changes within the system which are non-transformational do not constitute changes of the system because they are not relevant to the dynamics of the system (specifications A and B in Figure 2.2), whereas changes within the system which transform its embedded incentives constitute changes of the system because they are consequential to the dynamics of the system (specifications C and D in Figure 2.2).
In light of this qualification, alterations in the distribution of power assets are not automatically changes in the system; they are changes within the system but only constitute changes of the system if they are sufficiently significant to transform the dynamics of the system. That is, alterations in the distribution of power assets constitute changes in the international system only insofar as they are consequential to the dynamics of the system. This not only qualifies the conceptualization of change implicit in the IR theoretical approaches which center their definition of the international system on the distribution of power assets, but also, and most fundamentally, evinces how such conceptualization is limited.

Yet changes which are insignificant cannot be discarded outright; whereas individually minor alterations are inconsequential, if they are not one-time events and instead are part of a continuous stream of small alterations, they may pile up over time, eventually bringing about significant changes in the system. An assessment of change in the international system thus requires sensitiveness to the manner through which change comes about. In a discussion of the character of the process of change in the international system, Dina Zinnes highlighted the need in the analysis of changes in the system to assess “whether they represent dramatic system shocks or gradual processes of decay or growth” (Zinnes 1980, 18). Whereas according to the former change occurs episodically, according to the latter change is part of a continuous, incremental process. Robert Gilpin framed this as an issue of “whether the transformation of a social system can take place through incremental evolutionary changes or whether it must of necessity be the consequence of political upheaval and violence – revolution at the domestic level and major war at the international level” (Gilpin 1981, 44). For Gilpin both incremental and revolutionary change take place in the international system, with the former being the most frequent one. Puchala and Hopkins (1982) similarly highlighted the consideration of
evolutionary versus revolutionary change specifically with respect to international regimes. Moreover, though momentous events intuitively mark critical junctures, not only uneventful incremental processes may also produce systemic changes, but also prominent events in general do not happen sporadically and instead result from the incubation of forces for varying periods of time. Indeed, a dramatic shock in most cases is simply the culmination of processes which may have been overlooked individually and/or collectively. Therefore, change in the international system can be both discrete and continuous, and in general both are interrelated.

This issue may also be framed as one of whether or not changes represent discontinuities, with discontinuities understood as “jumpy” disturbances or alterations in an established state of normalcy (Jones 1981, 22). Discontinuities may be further qualified as ruptures in a state of normalcy characterized by continuity, with continuity meaning incrementalism and not the lack of change, since rather than being static the world is ever-changing (Jones 1981). In this light, alterations in power assets which are not system-relevant by themselves either constitute one-time isolated events, in which case they are indeed insignificant, or integrate a normal incrementalist process of change, in which case they constitute part of a significant process. This qualification highlights how change involves not just events generating significant alterations, but also, and most importantly, processes which generate significant alterations which may come about either eventfully or uneventfully. Alterations which are significant by themselves may also be part of significant processes of change. With respect to the instances in which alterations are insignificant by themselves but significant as parts of processes of change, the focus must be on indentifying the process since it is difficult to single out a marginal alteration.

A further qualification related to what constitutes change in the international system refers to whether an alteration is temporary or enduring. A temporary alteration means one that
does not take hold, signifying a return to the state prior to it after a certain period of time. It may be significant, that is, it may have system-relevant impacts, and even though it is likely that such impacts will be transient, being reversed after the alteration which was the stimulus for them vanishes, it is possible that the impacts nonetheless endure. This further stresses how ‘significance’ is at the heart of the conceptualization of change in the international system; it is fundamentally what defines change.

The first type of significant change in the international system (specification B in the vertical axis of Figure 2.2) involves changes that, though salient enough to carry significance, do not alter the incentives embedded in the system. The only possible change in a systemic element that does not have transformational consequences involves the international institutional framework. In line with Stephen Krasner’s definition of international regimes as “principles, norms, rules, and decision-making procedures around which actor expectations converge in a given issue-area” (Krasner 1982, 185), international regimes may be conceived of as entailing a foundational sphere – the embedded principles and norms – and an operational sphere – the rules and decision-making procedures. From this perspective, international regime change can be conceived of as including both non-transformational change within the regime, which involve alterations only in rules and decision-making procedures, and transformational change within the regime, which involve changes in principles and norms. Non-transformational changes within the regime affect its operation but do not affect its fundamental character; accordingly, they constitute changes within the international system, the reason why they are significant, but they do not constitute changes of the international system, the reason why they are not transformational. Conversely, changes in principles and norms change the regime’s fundamental
character, therefore affecting the international system’s embedded incentives and thus constituting changes of the international system.

International regimes are the constitutive parts of the broader international institutional framework, so changes in international regimes can be more broadly thought of as changes in the international institutional framework. Accordingly, to clarify what constitutes and how significant but non-transformational changes in the international institutional framework can take place, it is instrumental to consider what constitutes change in international regimes. Indeed, as pointed by Keohane and Nye, “Understanding the development and breakdown of regimes is central to understanding the politics of interdependence” (Keohane and Nye 1977, 33). It is thus central to understanding the role of regimes in the international system, that is, how they affect and are affected by the dynamics of the system.

According to Oran R. Young, once they have become established in specific social settings regimes are subject to three sources of change: internal contradistinctions in the regime, shifts in the regime’s underlying power structures, and exogenous forces (Young 1982). Internal contradistinctions can be conceived of as emanating from a disconnect between, on one hand, the regime’s rules and procedures, and on the other, its norms and principles. From this perspective, regime change would result from the resolution of such disconnect. That is an affair internal to the regime, which may be taken care of through the regime’s decision-making procedures, therefore not requiring any change in other elements of the system. In addition to what Young indicates, a regime’s rules and procedures may change through the internal workings of the regime in pursuit of greater efficiency in fulfilling its function in line with its norms and principles. Besides just for purely operational purposes, the regime’s established operational structure can also serve for its own refinement, which brings about changes within the regime. In
turn, shifts in the regime’s underlying power structures can cause regime change as the regime is adjusted – in timely or untimely fashion – to a new distribution of power. They can cause change in any of the regime’s elements, accordingly having distinct implications for the international system depending on what they affect. Finally, exogenous forces such as changes in the interests of key players or in technologies, which affect the international system’s incentives structure, can correspondingly prompt regime changes.

Another way to approach change in international regimes is through the implications of Arthur Stein’s (1982) conceptualization of the reasons why regimes arise in an anarchic world. According to Stein, “regimes arise because actors forgo independent decision making in order to deal with dilemmas of common interests and common aversions,” with the former referring to “a common interest in insuring a particular outcome,” and the latter referring to “a common interest in avoiding a particular outcome” (Stein 1982, 309). Stein’s is a qualification of two distinct types of common interests informing the emergence of international regimes. From this perspective, regime change would be caused by changes in the regime’s underlying interests. This is consistent with Keohane and Nye’s argument that “For international regimes to govern situations of complex interdependence successfully they must be congruent with the interests of powerfully placed domestic groups within major states, as well as with the structure of the power among states” (Keohane and Nye 1977, 197, stress added). Keohane and Nye called attention to the interplay of domestic and international politics, but most fundamentally, they highlighted the centrality of the interests behind international regimes. Indeed, power serves interests. In turn, along the lines of Young’s (1982) conceptualization of regime change, changes in interests may be related to shifts in the regime’s underlying power structure and/or exogenous changes.
Despite connecting the distribution of power with the interests of power holders, when specifying the reasons why regimes change Keohane and Nye nonetheless focus on the former. For them, one of the reasons for regime change “is that technological change and increases in economic interdependence will make existing international regimes obsolete” (Keohane and Nye 1977, 134). This involves exogenous change in economic processes which ultimately affects the regime through its impact on the distribution of power and the dynamic incentives in the system. More broadly, they also argue that “as the power of states changes, the rules that comprise international regimes will change accordingly” (Keohane and Nye 1977, 37), even if not in a timely manner. They add to that the insight that a change in the power structure within the issue area of the regime could suffice for promoting regime change, wherein changes in other issue areas might not be necessary (Keohane and Nye 1977). Finally, they point out that changes may come about through the effect of regimes on the ability of actors to use their capabilities. Once created, regimes may entertain a dynamic that leads to changes in them because they interfere in the very distribution of power that informed their origin. For the same reason, moreover, regimes may prompt changes in the international system within their scope of influence.

In light of these considerations about change in international regimes, only changes involving the resolution of internal contradistinctions are consistent with significant but non-transformational changes. Yet significant but non-transformational changes within the international institutional framework, constituting changes within the international system, can also result from refinements deriving from internal workings as well as from changes in power assets which are just enough to affect rules and procedures of a regime and nothing else in the international system.
In turn, changes that are due to shifts in the distribution of power, to how regimes affect actors’ abilities to use their power capabilities, or to exogenous forces, including interests, have transformational implications because they affect the system’s positive and negative incentives. Those changes thus befit either specification C in Figure 2.2, referring to changes which are significant and somewhat transformational, or specification D, which refers to transformational changes. The distinction between these two specifications of change in the international system relates to the distinction between processes of change and overtly consummated changes elaborated above. Given that any change in its incentives structure affects – to greater or lesser degrees – the character of the international system, significant and somewhat transformational changes are those which isolated are insufficient to transform existing incentives, but which constitute increments integral to a process headed towards transformational change. Essentially, specification C thus involves a transitory stage in which changes in elements which are bound to cause changes in incentives have not yet had such impact. Changes of such nature may involve power assets (I), the hierarchy of prestige (II), and changes in rules and procedures within the international institutional framework (III).

Transformational change (specification D in Figure 2.2) involves change in the system’s embedded incentives since they constitute the drivers and conditioners of activity within the system. The system’s embedded incentives circumscribe the nature and scope of activity; they include interests and their distribution, the distribution of regime types, the patterns of enmity and friendship, and the social, cultural, political, economic, and security challenges and opportunities provided by the dynamic interconnection of domestic and international cultures and political economies and by the diffusion of technology. Those are the positive and negative incentives confronting actors in the international system; they establish the spectrum of
possibilities, thereby determining the fundamental context for domestic and international relations.

Perhaps the most straightforward transformational change is a change in power assets which is sufficiently significant to alter the hierarchy of prestige, thereby affecting the relational perceptions among actors in the system, implicating changes in the system’s drivers and conditioners (specification D1). As this specification highlights, such change does not necessarily cause changes in the international institutional framework. There are two possible explanations for this. The first is that it takes some time for changes in power assets and correspondingly in the hierarchy of prestige to change enough the incentives for the pursuit of changes in the international institutional framework. For instance, Stephen Krasner has argued that “[the] structure of international trade changes in fits and starts; it does not flow smoothly with the redistribution of potential state power” (Krasner 1976, 36). According to Robert Gilpin, “those actors who benefit most from a change in the social system and who gain the power to effect such change will seek to alter the system in ways that favor their interests” (Gilpin 1981, 9). Though gains in power may enable and perhaps incentivize states to attempt redressing one or more features of the international institutional framework, such change in the distribution of power normally takes place incrementally, thus allowing for a gap to build up before a change bringing institutions to reflect the new distribution of power takes place. According to Gilpin, “[the] relative stability of the system is […] largely determined by its capacity to adjust to the demands of actors affected by changing political and environmental conditions. In every system, therefore, a process of disequilibrium and adjustment is constantly taking place. In the absence of large potential net benefits from change, the system continues to remain in a state of equilibrium” (Gilpin 1981: 13). Moreover, Gilpin argues that even when changes take place, “in
most cases [...] potential gains and losses are minor, and only incremental adjustments are necessary in order to take account of them. Such changes take place within the existing international system, producing a condition of homeostatic equilibrium” (Gilpin 1981: 13).

Another explanation for a disconnect between changes in the distribution of power and the hierarchy of prestige and the corresponding changes in incentives in the system involves a lack of change in the interests of those who have gained power towards the international institutional framework. That is, despite their improved positionality in terms of the distribution of power, they find no interest in switching from engagement into the system to attempting to redress international institutions. Broadly referring to international economic regimes, John Gerard Ruggie argued that while the concentration of economic power changes, “as long as purpose is held constant, there is no reason to suppose that the normative framework of regimes must change as well” (Ruggie 1982, 200). Analogously, referring broadly to international regimes, Robert Keohane argued that international institutions may endure changes in the power relations from which they originated due to their functional utility and “the greater ease of maintaining existing regimes than of creating new ones” (Keohane 1984, 184). Along these lines Keohane points that “Although hegemony helps to explain the creation of contemporary international regimes, the decline of hegemony does not necessarily lead symmetrically to their decay” (Keohane 1984, 51). Ikenberry and Kupchan go beyond that, arguing that in fact hegemony has a dimension which “works at the level of substantive beliefs rather than material payoffs” (Ikenberry and Kupchan 1990, 148). As their argument goes, a hegemon may achieve legitimate domination if it can socialize the other states into its hegemonic order producing shared normative beliefs. In this case such order has bases to endure beyond the waning of the hegemon’s material power advantage.
Expanding on the notion of a legitimate hegemonic order, G. John Ikenberry constructed a persuasive thesis attributing the expansion of the liberal international order and the continuity of US hegemony to an institutionalized trade-off serviceable both to the US and other states, a trade-off making the US-led postwar liberal order self-perpetuating. According to Ikenberry,

Taken together, the Western postwar order involves a bargain: the leading state gets a predictable and durable order based on agreed-upon rules and institutions – it secures the acquiescence in this order of weaker states, which in turn allows it to conserve its power. In return, the leading state agrees to limits on its own actions – to operate according to the same rules and institutions as lesser states – and to open itself up to a political process in which the weaker states can actively press their interests upon the more powerful state. The hegemonic or leading state agrees to forgo some gains in the early postwar period in exchange for rules and institutions that allow it to have stable returns later, while weaker states are given favorable returns up front and limits on the exercise of power (Ikenberry 1998: 59).

Effecting such a trade-off is no simple task, as it demands not only an understanding by the hegemon that it serves its interests but also, and foremost, a willingness by other global powers as well as weaker states to accept it. In addition, solving these two questions alone is not sufficient, as shifts in the distribution of power could produce changes in the willingness of states to both remain within the established order and refrain from pushing alternative orders. Ikenberry suggests that the solution to these challenges to a stable order rely on four key factors.

Two factors account for the US’s interest in relinquishing a share of its power in order to promote a stable international order as opposed to wielding it in its full capacity.

The basic answer [to why a newly hegemonic state would want to restrict itself by agreeing on limits on the use of power] is that a constitutional settlement conserves hegemonic power, and this is for two reasons. First, if the hegemonic state calculates that its overwhelming postwar power advantages are only momentary, an institutionalized order might “lock in” favorable arrangements that continue beyond the zenith of its power. […] This rests on two assumptions:] The hegemonic state must be convinced that its power position will ultimately decline […] and] the hegemon must be convinced that the institutions it creates will persist beyond its own power capabilities – that is, it must calculate that these institutions have some independent ordering capacity. If institutions are seen as simply isomorphic with the distribution of power, the appeal of an
institutional settlement will obviously decline. The second reason why a hegemon might want to reach agreement on basic institutions, even if it means giving up some autonomy and short-term advantage, is that it can reduce the “enforcement costs” for maintaining order” (Ikenberry 1999: 131).

In turn, the willingness of other states to accept the U.S.-centered liberal order lies in “what might be called “constitutional characteristics” – a structure of institutions and open polities that constrain power and facilitate “voice opportunities,” thereby mitigating the implications of power asymmetries and reducing the opportunities of the leading state to exit or dominate it” (Ikenberry 1998: 45). This constitutional arrangement is effective in promoting acceptance not only because its “penetrated character […allows] for access by secondary states and [binds] economic and security institutions” (Ikenberry 1999: 124), but also because the US has a transparent democratic polity that “allows other states to make more accurate calculations about the likely direction of American foreign policy, which lowers levels of uncertainty and provides a measure of reassurance” (Ikenberry 1999: 134). Hence, that the international liberal order is accepted by other states is not a matter of forceful imposition, but in fact it occurs because it is of interest to them insofar as it offers them opportunities and assures their security in relation to the hegemon.

That the US and other states have reasons to respectively sponsor and accept an international liberal order, however, does not suffice to guarantee that such strategic accommodation is everlasting. For instance, a shift in the distribution of power could unsettle the ongoing arrangement if an emerging power comes to find that the rewards from continuing to accept such order have become lower than those it could obtain by pursuing to alter it. To explain the continuity of the US hegemonic order, therefore, one must account for how such order accommodates changes in the distribution of power and their implications. Ikenberry accomplishes that attributing continuity to a “lock in” effect of prevailing liberal institutions.
According to him, besides a constitutional character that reduces returns to power, “the institutions [of the liberal order] also exhibit an “increasing returns” character, which makes it more and more difficult for would-be orders and would-be hegemonic powers to compete against and replace the existing order and leader” (Ikenberry 1999: 125).

Ikenberry subsequently argued that “[the] order that has emerged is distinctive – multilateral, reciprocal, legitimate, and highly institutionalized” (Ikenberry 2001, 20). Ikenberry in fact ultimately distinguished such order from a hegemonic order because it has more of a constitutional than hegemonic character. According to Ikenberry, whereas in a hegemonic order hierarchy is the organizing principle, there are no restraints on the concentration of power, and the source of stability is the preponderance of power, in a constitutional order the rule of law is the organizing principle, binding institutions restrain the concentration of power, and the source of stability resides on the limitations on returns to power that it imposes (Ikenberry 2011). This distinction further qualified Ikenberry’s argument that it is the constitutional character of the liberal international order which allows US power to “have such scope, depth, and longevity” (Ikenberry 2011). Analogously, it is also what enables the institutional framework to withstand shifts in the distribution of power.

There are, therefore, substantive possible reasons for changes in the system’s embedded incentives not to be accompanied by changes in the international institutional framework as denoted by specification D1. However, it might well be that changes in power assets and the hierarchy of prestige which produce changes in the system’s embedded incentives do involve changes in the international institutional framework. This possibility is represented by specification D2. In this case a change of the norms and principles of one or more international regimes occurs. Such change concomitantly manifests the consequences of changes in the
system’s embedded incentives and itself alters the incentives embedded in the international institutional framework.

Yet changes in the norms and principles underlying one or more international regimes do not necessarily require changes in power assets or the hierarchy of prestige; they may also take place due to changes in incentives due to other reasons, such as changes in interests and/or the distribution of regime types and patterns of friendship and enmity, as well as technological change. This possibility is represented by specification D3 in Figure 2.2. Those changes constitute themselves changes of the system; the impact on the norms and principles of the international institutional framework thus constitutes an additional transformational impact.

Finally, it might be that transformational changes occur due to changes in the hierarchy of prestige which are unrelated to changes in power assets, referring to changes in perceptions in existing material and immaterial assets. Specification D4 in Figure 2.2 captures this possibility. In this case, by changing the hierarchy of prestige, perceptual changes alter the system’s positive and negative incentives, thereby transforming the context for action in the international system.

THE ENGINES OF CHANGE

With the conceptualization of change in the international system presented above clarifying what constitutes change and how each element of the system relates to it, it is now opportune to consider further what is behind change in the constitutive elements of the international system and in their interrelationships. This has already been addressed to some extent; indeed, change in the hierarchy of prestige and in the international institutional framework are mainly a function of power assets and the system’s broader incentives, albeit as noted in the foregoing discussion, endogenous change may also occur in the latter. But the
relational effects of the elements of the system are only part of what is behind change in power assets and the system’s broader incentives structure. They are in fact complementary to the core bases for changes that lay within states. Indeed, this is straightforward as material assets refer to the relevance of each state’s condition to international politics, and analogously, the scope and nature of interstate relationships derive from each state’s inner drivers and conditioners vis-à-vis the constellation of external forces they face.

A complex weave of bi-directional interconnections, each with multiple repercussions that makes it in fact multi-directional, within and between the domestic and the international realms, characterizes the context in which domestic and international actors operate. Those interconnections vary both in nature and in the scope of their impact throughout the system; also, some of them are more rigid than others, but they are for the most part changeable and changes in them both cause and are caused by changes in the elements they directly or indirectly link. The system’s network of underlying interconnections thus has no beginning or end; the international system is a fluid continuum. Accordingly, the elements identified in Figure 2.2 above are not end of the line ones; at the same time that their interrelated condition at any given moment defines the international system, they affect the dynamic forces behind them, which in turn involve a multitude of other flexible factors. Figure 2.2 thus comprises a synthesis of the forces crystallizing at the international level. In this perspective, understanding the dynamics of the system, that is, how it functions and whether, why, and in which manner it changes, requires considering not just those constitutive forces but the whole continuum to which they belong. This is obviously no easy feat, and accordingly, there is no exhaustive characterization of the dynamics of the international system and any presumption of producing one would be ill-conceived. But core relationships and their main consequences are identifiable, making viable a
conceptual characterization. Accordingly, Figure 2.3 below provides a conceptual depiction of the intricate nexus of domestic domains and the international realm.

This conceptual characterization of the core relationships within a state and between the state and the international system highlights the dynamic interconnections of multiple elements in the continuum involving the domestic and international realms. There is no necessary order as not only is there no beginning or end, but also the multi-directional nature of interconnections makes them and the elements they link flexible in varying degrees. Yet the schematic illustration in Figure 2.3 stresses how the forces at play in the international system are heavily anchored in the internal dynamics of states; hence the need to consider the whole continuum to which such forces belong, and not just what pertains to the international sphere, in order to address the dynamics of change in the international system. Indeed, in an international system composed of the implications to international relations of a host of elements which directly or indirectly relate to states as international actors – the distribution of power assets, the international institutional framework created and managed by states, national interests, patterns of enmity and friendship, and technological diffusion – what happens to states and their relationships with the rest of the world is at the heart of how change takes place in the international system. How states change as regards the means through which they affect the rest of the world is, therefore, where the core source of change of the international system resides.
Figure 2.3 depicts a set of core elements and relationships between them that capture the central dynamics behind the state-system continuum. No set of such elements and relationships can plausibly be expected to be equal to another; there is obviously too much internal distinction among states as regards those elements and interrelationships – within the state and consequently between it and the international system – for any two to be the same. This ineluctable fact bears upon change within states and of the international system. The internal makeup of the state conditions how it is affected by the international system, much in the same way that it responds for how the state affects the system. Due to distinctions in their makeup, states not only are presented with distinct domestic prospects, but also, and relatedly, experience different demands and opportunities from the international system and vary in their ability to respond and actual
response to those. At the same time, each state exerts a distinct influence over the international system. Robert Gilpin pointed that there is a “tendency in an international system for the powers of member states to change at different rates because of political, economic, and technological developments” (Gilpin 1981, 13). In the same way, and in connection with changes in power assets, interests as well as their cultural underpinnings are flexible and experience distinct degrees of variation across countries. Given that the world is ever-changing because any activity alters the antecedent reality, different domestic political economies perpetually prompt change with different natures, paces, and scopes across states, making relative changes in power assets virtually inevitable. That is, changes in the distribution of power assets occur even if states do not intently pursue to develop their power assets so as to improve their power capabilities in relation to other states. Change in the distribution of power thus requires neither intent nor change in interests and related intent. Yet for the same reason that changes in power assets are ineluctable, so are changes in interests and perceptions, and when occurring, changes in interests, perceptions and related attitudes impact on the process of change in power assets, in the willingness to use them, and accordingly in their perceived meaning, thereby impinging on the state’s position on and relationships with the international system, and consequentially on the system. Change, therefore, is inevitable; the international system is correspondingly ever in flux.

On Change in Economic Power Assets

As indicated in the foregoing discussion about power in the international system, although the state’s economic condition and its economic power assets are distinct, the state’s economic condition determines what it commands in terms of economic power assets. What is
behind the state’s economic condition is, therefore, key to its power position in the system and consequently to the system that exists as a result of that. That is all the more important given that a state’s economic condition and correspondingly its international economic relations and the ways they affect the world have consequences for its military and soft power assets, its international status, the international institutional framework, and the system’s embedded incentives more broadly.

Economic condition is defined here as the combination of the state of the economy – what features the economy has – and the capacity of the economy – what prospects the economy has given its state. The state of the economy refers to the immediate economic reality in terms of the meaningfulness for economic activity of constitutive elements and their interactive distribution. Economic capacity refers to the implications of that for the future, that is, for the state’s potential economic trajectories. This distinction is instrumental for considering change in a state’s economic condition for highlighting where the economy can go. Therefore, it is in what determines what is the scope and direction of prospective economic change, and in how the state is accordingly endowed, which reside the engine of change in a state’s economic condition. Consequently, this is what is central for changes in economic power, which though not automatically or entirely deriving from the state’s economic condition, is centrally contingent on it.

As the recent global economic downturn evinced, states worldwide remain subject to developments beyond their control which affect their economic condition. Yet it also stressed how different economic conditions, both in general and specifically with respect to the level of connection with the event in question, bring about different impacts. That in turn brought new light onto what economic conditions are best suited for economic prosperity, albeit it is too early
for a synthesis of the lessons of the crisis against the teachings of the economics’ schools of thought and specific theories of economic growth. Besides, that is contingent on the parameters underlying the interpretation of the causes and consequences of the crisis, which vary based on the views of society that are held. Indeed, to a considerable extent the competing schools of thought in economics, which refer to the broader dynamics of economies, retain their appeal due to the idealized views of society they relate to and not as a consequence of vindication by real-world developments. Crystallized in the public sphere by political opportunism, the debate not only remains unsettled but also tends to keep societies farther from the most efficient allocation of resources towards economic prosperity. Yet a sensible view grounded on an extensive analysis of global capitalism over the twentieth century has that “the history of the modern economy illustrates [that...] economies work best when they are open to the world [and...] open economies work best when their governments address the sources of dissatisfaction with global capitalism” (Frieden 2006). Frieden’s conclusion corroborates that which Stiglitz and Squire (1998) reached in their analysis of the developmental experience of developing countries from 1970 to the mid-1990s: that the huge differences in development performance in the developing world in that period “show that growth does not simply occur with the passage of time” (Stiglitz and Squire 1998, 138), that is, it takes concerted effort, and what the government does towards the promotion of economic development matter. As they conclude, “[the] empirical evidence is, in fact, nothing more than a corroboration of common sense. Three conditions are critical: a stable and credible policy environment, an open and competitive economy, and a focused public sector” (Stiglitz and Squire 1998, 142). This highlights the role of government in both enabling and incentivizing economic activity, which involves striking the proper balance between government involvement and private activity.
The context for economic activity depends heavily on the government given that it is charged with the stewardship of the economic system, being responsible for the structure and functioning of the state’s economic system, the nature of which “prescribes how various economic decisions are made” (Knorr 1992, 85). This involves the economy’s underlying institutional structure and its operation, which so-called new institutionalists see as “the primary driver of economic development, more so than features of the natural environment, geography, the supply of factors, and the technologies for their use” (Przeworski and Curvale 2008, 100). Both economic and political institutions are pertinent, and in fact, the conduct of government and the quality of public policy are central to establishing a stable, auspicious environment for economic activity (Knorr 1992). That impacts on levels of consumption, investment and savings of both individuals and businesses given how it establishes the climate and conditions and correspondingly signals the horizon for economic activity. Besides the institutional environment, this includes specific action aimed at either catalyzing economic advancement or mitigating the deleterious consequences of economic distress. All these aspects of how the government may affect the economy can combine constructively, but analogously they may have a detrimental cascade effect if not positively oriented. Indeed, noting that government activity “can favor economic progress, stagnation, or decline,” Klaus Knorr argued that “[among] the conditions leading to adverse results are the priority of political over economic objectives, faulty economic doctrines, contradictory bureaucratic behavior, and the poor capacity to forecast with any precision the consequences of intervening in the economy” (Knorr 1992, 86). These highlight how economic performance can be compromised by poor governmental performance resulting from several reasons, alone or combined. To be sure, other factors, many of which escape the control of the government, affect economic activity. But the government is at the forefront of
how the state’s economy is able to face, and actually faces, factors for which it is not directly
responsible, wherein its will and capacity to address them as an integral part of its role in
managing the conditions for economic activity is central for the performance of the state’s
economy.

As denoted in Figure 2.3, the role of government as regards the state’s economic
condition can be summarized as comprising domestic and international economic policy, and the
government conduct – how and how effectively it discharges its mandate – in relation to the
economy as well as all other aspects of life within the state and of its interrelationships with the
rest of the world. The latter include the implications of its conduct to the government’s
credibility as regards serving the public good and the consequential political and economic
climates established and their conduciveness for economic activity. Whereas domestic policy
includes all aspects related to the structure and functioning of the economic system and specific
action towards particular goals, international economic policy refers to how the state positions
itself to take advantage of the opportunities and mitigate the challenges posed by the global
economy. The latter has become increasingly important given that the internationalization of the
base for, and actual flows of, goods, services and capital “affects the opportunities and
constraints facing social and economic actors, and therefore their policy preferences […]and
correspondingly the] aggregate welfare of countries, their sensitivity and vulnerability to external
changes, and therefore the constraints and opportunities faced by governments” (Milner and
Keohane 1996, 4). Related to that, the world economy “impinges directly and at times
significantly on [the state’s] political autonomy, traditional values, and social structures” (Gilpin
1992, 52), which is a reason why Gilpin argues that “[the] international economy and the
interdependencies it establishes constitute a form of economic and political power that affects the
national security and economic welfare of states” (Gilpin 1992, 53). International economic relations, therefore, have not just economic consequences but also repercussions for the state’s cultural infrastructure, interests and perceptions, and how they play out in the domestic political arena. For instance, as Frieden and Rogowski noted, easier international exchange, even when without the engagement of the state, affects the dynamic incentives for domestic economic actors, thereby impacting on their support for international economic policies (Frieden and Rogowski 1996). Yet as Garrett and Lange pointed out, due to the role of domestic institutions, “internationally generated changes in the constellation of domestic [societal preferences and coalitions do not promptly cause] changes in policies and institutional arrangements within countries” (Garrett and Lange 1996, 49). These interconnections are represented in Figure 2.3 by the bi-directional arrows involving all domestic elements and the international system. Accordingly, changes in any of them have potential implications for the others, and in the same vein as what was denoted above about government involvement, the orientation of change in any of them can have either positive or negative consequences for the state’s economic condition.

Along those lines, on hand changes generated at the international system may affect the interplay of culture, interests and perceptions within a state and have consequences for economic policies, and relatedly for the relative strength of domestic economic actors. On the other, a state’s cultural infrastructure and collection of competing interests and perceptions affect the structure of government, government-public society relations, domestic and international economic policy, economic activity, military force, and how all relate to the rest of the world. With respect to the economy, according to Klaus Knorr, the cultural infrastructure impacts on “educability, work ethics in all strata of the labor force, and the propensity to save […] and to invest, […] as well as on] the institutions within which people rise and fall on the basis of
achievement (meritocracy) […] and society’s structure of values, especially on how people value economic activity and its results related to other things” (Knorr 1992, 87). Private engagement in economic activity depends upon perceptions and predispositions which are informed by the cultural infrastructure. The latter is in turn affected by the structure and workings of, and returns and prospects from, the state’s economy, and analogously, a circular feedback effect influences economic policy as the relationship between the public and government is underlain by the interactive meshing of interests, perceptions, and “predisposing patterns of thinking, feeling, and acting that express underlying beliefs and attitudes” (Knorr 1992, 92).

The state of the economy refers to the collective state of all of these interrelated constitutive elements. More specifically, it involves the nature and institutional bases of the economic system, including its macroeconomic healthiness (or lack thereof), the conduct of government and the quality of economic policy, the size, quantity, and productivity of labor and material capital, the framework and predispositions for and levels of consumption, investment and savings, the command over technology, the transports and communications infrastructure, and the scope and competitiveness within the state and internationally of industrial, agricultural, and services enterprises in operation. Importantly, it is not simply the individual state of each element, but also how they are dynamically interconnected which determine the economy’s ‘critical mass’ at any point in time. Change in a state’s economic condition thus comes from change in any constitutive element or interrelationship as deriving from the state’s economic capacity and consequently affecting the antecedent state of the economy.

Change in a state’s economic condition relates to both the state and the capacity of the economy. The normal operation of the economy in its current state implicates quantitative changes. These in turn may lead to qualitative changes in the cases in which the accumulation of
quantitative changes causes a qualitative shift within the economy. For instance, the accumulation of different rates of growth over time can alter the weight of industries in the economy, thereby changing the dynamic incentives within the economy as well as their political repercussions, which impinge on the orientation of change in economic capacity inasmuch as policymaking and private action are affected. In turn, if change is prompted by external developments, high sensitivity imposes heavy burdens, which in turn affect the economy’s current state as well as its capacity, thus not only affecting the immediate reality but also compromising future prospects.

The usage of economic capacity towards improvements upon the existing state of the economy involves both quantitative and qualitative changes. For instance, the use of investment capacity to expand the number of material capital units represents a quantitative change which at the same time can be understood as having qualitative consequences insofar as it allows labor to become more productive. Yet a more definitive qualitative advancement can take place if rather than simply increasing in number, material capital units are either improved to become more efficient or replaced by more efficient ones.

Yet some aspects are more central than others, and in pursuit of a faster pace of economic change the government in its prominent position, as well as the private sector, may take action to catalyze the process of economic change. For instance, both private sector actors and the government can invest in the promotion of technological innovation, recognized in the Solow-Swan model as a central exogenous factor for economic growth (Solow 1956; Swan 1956), and subsequently qualified as endogenous (Romer 1990, 1991). Moreover, through investment in education, infrastructure, and research and development, the government not only can directly promote innovation but also, and most importantly, can contribute for enhancing the prospects
for innovation in the private sector, thereby having a comprehensive impact on the generation and diffusion of innovation.

Whereas the state of the economy determines its capacity for advancement at any given moment, economic capacity is a potentiality; it may or may not be actualized in fullness. It is indeed a factor impinging on the near future in a stochastic rather than deterministic manner. For this reason, combined with the fact that the state confronts external factors over which it has little or no control, the process of economic change is not linear or positively unidirectional. But superior economic condition nonetheless provides better prospects of greater consistency in staying the course of economic advancement.

At any given moment the state of the economy, as compared with economic capacity, is ineluctably at the forefront of the state’s economic power since the actual takes precedence over the probable. But given that future prospects impinge on current economic activity, both the state of the economy and economic capacity affect economic power. In this light, change in economic power assets results centrally from the implications of changes in economic condition to the elements from its economic condition that the state can wield at the arena of international politics (Chapter 5 returns to this topic). Yet it also results from changes in the state’s ability to deploy instances of its economic condition, as articulated in the discussion of power in the international system above.

On Change in Military Power Assets

At the same time that it denotes that power assets and interests depend upon a host of interrelated domestic and international factors and relationships, Figure 2.3 highlights what
Stephen Cohen pointed as “the two highest priorities of the modern nation-state: economic prosperity and national security” (Cohen 2000, xi). In the domestic realm economic prosperity is a priority due to its social and political implications; in the international realm it informs the state’s economic power assets. In turn, national security is a priority – in both the domestic and international realms – for the core reason of the preservation – at home and abroad – of both the physical integrity of citizens and material assets and the national interests from external threats. Figure 2.3 summarizes national security as entailing homeland security policy and international security policy. Both are interrelated, albeit they are typically treated separately when the focus is on military power in the context of international power politics. They involve both diplomacy – captured by the bi-directional arrow indicating the relationships of the state’s government with the international system – and the force-related security apparatuses. The latter involves domestically the homeland security apparatus and internationally the state’s military power assets. While what constitutes national security may vary across states and time periods, and so may the balance between diplomacy and the use of force for national security purposes, a state’s military power is invariably central for national security.

The foregoing discussion on power assets pointed out how military force is contingent on the state’s economic condition. Figure 2.3 captures that. Yet military force is also contingent on the interplay of culture and interests as it relates to public policy. Aspects such as unity within the government, the government’s reputation with the domestic public “as a trustworthy and effective agent in pursuit of the public good,” and the government’s capacity to “focus public attention on military needs and to make the public accept or tolerate proposed programs,” affect the extent to which government is able to allocate resources to the development and use of force (Knorr 1992, 90). Those aspects relate to both government performance and the cultural
infrastructure, and are all the more relevant given that the government plays an even more direct role in a state’s military power than it does in relation to its economic power. Though that is particularly relevant in democratic regimes, it also affects autocracies. Indeed, democracies and autocracies confront different advantages and difficulties due to how regime type affects the structure of influence on government policy and the public’s underlying preferences, but both political structures play a role into a country’s military strength. This includes the perceptions about the demand for military force as related to perceptions of threat and the requirements of foreign policy goals, which by their very nature make security policy much more directly dependent upon systemic incentives than economic policy. For the same reason a state’s security policies create more definitive systemic incentives than do its economic policies. For instance, Robert Jervis has argued that prisoner’s dilemma dynamics is more intense in security regimes in contrast with other issue-areas because security issues involve higher stakes and are always zero-sum (Jervis 1982). Jervis’ articulation of the implications of offensive and defensive capabilities further stresses the (positive and negative) systemic incentives that a state’s security policies generate. Along the same lines, Stephen Walt (1987) stressed the increased role of perceptions of US intent in determining how other states would respond to the United States’ security policies as the Soviet Union declined. Yet the configuration of the international system may also, Michael Mastanduno has argued, at times be conducive to the integration of economics and security. Mastanduno (1993; 1998) argued that multi- and uni-polar international structures, threatening strategic environments, and US domination of international economic competition have favored the integration of economics and security in US statecraft with respect to economics serving security purposes.
The fact that the public’s willingness to accept or tolerate the diverting of resources from other ends to be employed towards military efforts is contingent on the socio-psychological complex circumscribing the public’s worldview and relationship with the government includes the consideration of the relationship between security and economic welfare. That is, it involves whether and to which extent security and economic welfare are complementary or entail a tradeoff. As noted by Baldwin and Milner while considering the economic aspects of national security, economic welfare may be a core security value (Baldwin and Milner 1992). This makes economic welfare integral to national security. A related yet distinct aspect which might be associated with national security is economic security (Friedberg 1992). It relates to the state of the economy, including its adaptability in connection with its levels of sensitivity and vulnerability to external developments as well as its relative autonomy. For instance, in considering how the economy affects military strength Klaus Knorr noted that in addition to output capacity and productivity there is the issue of “dependence on the structure of output – that is, on the ability to produce goods that are critical to sustaining the military effort in times of peace and even more so in wartime” (Knorr 1992, 88). Stephen G. Brooks, however, has argued that specifically with respect to weapons production, “no state, including the great powers, can now effectively remain on the cutting edge in military technology if it does not pursue significant internationalization in the production of weaponry” (Brooks 2005, 6). This refers to the national security implications of the economic circumstances for private sector actors, mainly the military industrial complex, within the global economic reality. It brings up the issue of adaptability in the face of disruptions of established international networks of weapons production. It also refers to stockpiling to ensure access to both completed equipment and parts in sufficient quantity to provide conditions for sustaining a war effort for a reasonable period of time. This in turn
invokes the tradeoff between investment in military force and investment in the civilian economy and its impact on economic condition, which ultimately has implications for military strength. On one hand, as indicated by Klaus Knorr, military “strength rests heavily on the quality of statecraft, which is the competence with which civilian and military bureaucracies take the resources allocated to the military sector and convert them into the military forces […] that make up national military strength” (Knorr 1992, 114). But on the other it is delimited by the state’s economic condition, which is affected by how it is employed. As pointed out in the foregoing discussion about power in the international system, military strength is contingent on a balance between the demand for and supply of military force. Whereas the demand side refers to perceptions of threat and how they play out in domestic politics, the supply side of this balance involves the efficient allocation of resources towards striking the proper balance between economic and security ends so as to maximize both.

In light of these considerations, changes in military power assets result from changes in economic condition, in the ability of the government and the private sector to optimize the allocation of resources towards national security objectives, in perceptions of threat, in perceptions of the government and of its ability to address threats, of what is valued as national security, of the ideal or viable balance between economic prosperity and national security, and of the means that are acceptable for pursuing national security objectives. This dissertation project is concerned only with changes in military power deriving from changes in economic condition since they are the ones that are more directly related to the WTO. Because the dissertation’s focus is on how the WTO affects relative economic condition, it covers only the prospect of changes in military power coming from changes in economic condition. The other possible
sources of change are not dismissed and in fact their acknowledgement highlights the limits of the impact the WTO might have on changes in military power.

On Change in Soft Power

Finally, whereas Joseph Nye (2004) defined it more narrowly as specifically relating to the international roles of culture, values, and foreign policy as perceived in relation to those, a state’s soft power is defined here much more comprehensively, as deriving from the perceptions of others over the many ways in which the state interacts with and affects the rest of the world. Soft power refers to the state’s image in the eyes of others, and that encompasses every instance in which anything perceivably related to it affects others, and not just what concerns culture, values, and their foreign policy manifestations. In this perspective, a state’s soft power is contingent on two core aspects: changes in the ways the state and everyone and everything perceivably related to it affect other states and the international system more broadly, and changes in the prisms through which others assess the state’s international footprint. On one hand, changes in a state’s soft power assets come from changes in any and every aspect of the state that have an international impact. That refers to how the international repercussions of changes within the state and in the channels of interactions between its private and public actors and the rest of the world change the way others perceive the state. On the other, changes in a state’s soft power assets may also come from changes in the prisms through which others interpret its international footprint, thus referring to how changes within other states change the way they perceive the state in question. The same is applicable to nonstate actors.
Impacts on the international system and the way others interpret them go hand-in-hand in establishing a state’s soft power. For instance, though in most cases resulting from profit-seeking devoid of a political agenda, imported consumer products may be seen as spears of economic or cultural domination, thereby instigating resentment which runs counter the shaping of preferences so as to make those of the importer state converge towards or align with those of the state from which the imported products originate or are associated with. Rather than involving just what serves the state, soft power is in fact the net result of the implications of the perceptions about the state due to both state and private activity to whether and to which extent the preferences of others are affected in its favor. Both the means through which interactions occur and their effects are relevant as considered through the prisms of interests and cultural underpinnings of other actors in the international system.

The state may engage in cultivating soft power, with any results from such deliberate pursuit adding to or detracting from what is obtained irrespective of concerted efforts simply by virtue of the state’s regular international footprint as perceived by others. In the same way that such footprint may cut both ways, attempts at increasing the state’s ability to influence the preference of others without resorting to hard power may have both positive and negative results depending on their impacts and how they are interpreted by international actors, with different actors possibly having distinct interpretations. It is the net result of all effects that constitutes a contribution to or subtraction from the state’s soft power.

THE WTO AS AN ENGINE OF CHANGE

While focusing on power assets, the foregoing discussion in part subsumes change in the structure of incentives in the international system since that derives from the interactive
collection of state-system continuums in the system. That is intertwined with the processes of change (or lack thereof) in the international institutional structure previously discussed. In light of that, what role does the WTO play in the broader continuum of change in the international system? By identifying the WTO’s spheres of influence in the state-system continuum it is possible to gain objectivity in assessing the impacts of the WTO on individual states. At the same time, such an exercise denotes the limitations of the WTO’s effects in relation to the entire continuum. Additionally, it also indicates that whatever impacts the WTO has, they are interrelated with multiple other aspects of the dynamics of the international system. Figure 2.4 below indicates four spheres in which the WTO is more directly active. Their order of listing follows what is seemingly more straightforward about how the WTO affects states in the international system; it does not signify an order of importance.

The first sphere in which the WTO affects states in the international system – identified in Figure 2.4 by (I) – is that of the conduction of international economic relations under the provisions governed by the WTO. It refers to the impact of WTO membership as an integral part of a state’s international economic policy on the performance of the state’s private economic actors in their international economic interactions. This impact has consequences for the state’s economic condition, therefore ultimately impinging on the state’s power assets and more broadly on its condition within the interactive collection of state-system continuums in the system.

The second sphere in which the WTO affects states in the international system – identified in Figure 2.4 by (II) – is that of the conduction of domestic economic policy. Specifically, this refers to the impact of the WTO provisions on a state’s policy space for economic development. By affecting how the state can act to improve its economic condition, the WTO delimits the state’s economic capacity, thus impinging on the pace and scope of
economic change, which in turn have broader repercussions both domestically and in terms of the state’s condition in the international system.

**Figure 2.4: State-System Continuum and the WTO**

The third sphere in which the WTO affects states in the international system – identified in Figure 2.4 by (III) – is that of the utilization of the state’s economic power assets. Whereas spheres (I) and (II) involve more directly the state’s economic condition, which in turn conditions its economic power assets, sphere (III) refers to the ways a state can utilize its economic power assets. In fact, given that the WTO provisions delimit the tools of economic statecraft at the state’s disposal, sphere (III) involves more precisely how the WTO affects the state’s economic power assets. Any aspect of a state’s economic condition constitutes an economic power asset only insofar as it has consequences for international politics. As the WTO delimits the range of policy measures a state can use in its international interactions, it impinges
on the process of translation of economic condition into economic power assets. In other words, in line with the dynamics of power in the international system depicted in Figure 2.1 above, by delimiting the range of power policies a state can resort to, the WTO impacts the range of power tools a state may actually possess and consequently affects what aspects of the state’s economic condition are meaningful as power assets. Yet this sphere is more fundamentally subsumed by spheres I and II since it is contingent on the state’s economic condition, for which reason ensuing chapters focus on spheres I and II. The specifics of sphere III are thus left for future investigation; it is inferable, however, that those with the greatest economic power are those which stand to lose the most from constraints on how power can be exercised since they are the ones which otherwise would be better positioned to extract returns from power.

Finally, the fourth sphere in which the WTO affects states in the international system – identified in Figure 2.4 by (IV) – is that of the broader incentives related to the constitutional character of the WTO and its condition as an integral part of the international system’s institutional framework. The WTO’s underlying principles and actual workings concerned with an open, multilateral environment for international economic interactions, orients the nature of international economic interaction. The breadth of membership and the fact that all major economies – except Russia which nonetheless is currently going through the accession process – are members make for an irresistible pull factor in that regard. That contributes to the consolidation of the WTO, thus crystallizing the international order it undergirds. Therefore, in addition and in connection to its role in governing the patterns of international economic interaction, the WTO plays a role in the dynamics of institutionalized systemic incentives and how their relationship to states plays out in terms of changes in economic condition and in power assets in international politics. If the international system is domineering, then it follows that
such a role is lopsided, whereas if the international system is open, such role is also open. The investigations of spheres I and II speak to the nature of the international system, accordingly illuminating this issue; hence the focus on investigating spheres I and II in ensuing chapters, with the specifics of sphere IV, likewise those of sphere III, left for future investigation.

Yet the role of the WTO in the continuum of the international system relates to actual impacts in each of these spheres of influence. Differences in impacts across states in a single sphere signify distinct returns from WTO membership to different states in that sphere. The way those returns are distributed may affect state positionality in the international system; if they do the WTO has played a role inconsistent with that of a status quo institution, whereas if they do not the WTO has been a conservative institution. That may vary from one sphere to the other, and each sphere is relevant on its own, with the combined effect of all four spheres providing the ultimate aggregate effect of the WTO on states and the international system. Nonetheless, as the bases for spheres III and IV reside on spheres I and II, the latter are the ones specifically addressed in the ensuing chapters.
The Impact of the WTO on International Economic Interactions

How different are international economic interactions under the WTO from what they would be without it? If this question can be answered then it is possible to ask: Is the difference favorable to a particular state or group of states? This second question is the one which is directly pertinent to assessing the role of the WTO in the international system, and relatedly, determining which narrative of the tale of two WTOs is more accurate. As it is an extension of the first, fundamental question, the answer to this second question depends on determining how the WTO affects international economic interactions and what the accompanying consequences of that are for the relative economic condition of its member-states. With that established, identifying whether some WTO members have been benefitting more than others is just a matter of direct comparison. Yet determining the impacts of the WTO on its member-states involves two core challenges which make them virtually indeterminable: first, it requires comparison with a counterfactual, that is, with a hypothetical reality in which the WTO does not exist; second, it requires disentangling the economic interactions governed by the provisions of the WTO from all other factors pertaining to economic activity and to the entire state-international system continuum more broadly. Each of these requirements alone constitutes a major hurdle in determining the impact of the WTO on trade-related economic interactions; in combination they pose a truly formidable challenge. Examining the impacts of the WTO on the economic condition of its member-states, and relatedly, in the international system, thus requires deploying avenues of analysis that enable overcoming such challenge.
This chapter presents one avenue of analysis that enables gaining a sense of both the direction and the limits of the impacts of the WTO on international trade relations. It assesses general trends in international trade vis-à-vis what should not occur if the narratives of the WTO were accurate. The rationale informing this approach is that even though general trends do not lend themselves to the determination of precise measures of the impacts of the WTO because the WTO is intertwined with a multitude of other factors, they provide bases for conjecturing the nature and scope of the impacts of the WTO. In particular, considered against what should not be occurring based on the expectations from the narratives about the WTO, general trends allow for the identification of signs inconsistent with the narratives as regards the nature and scope of what is taking place under the aegis of the WTO. This approach draws on the state-system continuum depicted in Figure 2.4 of Chapter 2; with a focus on the relation between trade and economic development, it addresses specifically spheres I and II of Figure 2.4, the former directly, and the latter indirectly as it affects I.

Given that the realist-inspired narrative about the WTO has only one specific postulation about the nature of the impacts of the WTO, as opposed to the multiple impacts allowed for by the neoliberal institutionalist-inspired narrative, the former is most propitious for testing. Specifically, for the realist-inspired narrative to be validated, the WTO must ensure that, whatever the quality of economic policies that states adopt, there are no developments in the arena of international trade conducive to relative changes in economic conditions that disfavor the most powerful states in the international system. That is so because changes of such nature can lead to changes in economic power that may have systemic consequences compromising their position. If general trends are inconsistent with this, they indicate four possible scenarios; whereas the analysis developed in this chapter does not determine which of them is most
pertinent, what matters is that all of them are inconsistent with the hypothesis that the WTO plays a conservative role in the international system.

The first possible scenario is that the WTO sets up a trading system that is skewed towards and thus would help the most powerful states if they exploited the corresponding opportunities, but for reasons inherent to their domestic political economies they have not been taking advantage of these opportunities. In this case, structurally the WTO trading system is in line with the narrative portraying it as being serviceable for the most powerful states, but in practice internal failings in those states prevent them from accruing the benefits that the structure of the system allows. The assessment of general trends does not allow identifying the character of the structure of the system and the degree to which each WTO-member takes advantage of the opportunities such structure provides it. But if this is found to be a possibility, it signifies a potential inconsistency with the narrative because the narrative itself requires the identification of impacts favorable to the most powerful states in the system rather than leaving these impacts contingent on levels of usage and accordingly allowing results contrary to that.

The second possible scenario is that the WTO might be helping the most powerful states to some extent, but not sufficiently to enable them preserve their position. In this case, the provisions of the WTO have not sufficed to block states other than the most advanced ones to obtain results potentially contributing to improvements in their economic condition in relation to the most powerful states. The third one is that the WTO is simply not helping the most powerful states in any way to preserve or increase their power advantage because it is functioning in line with the narrative according to which rules rather than power prevail within the international trading system governed by WTO agreements. In this case, the WTO trading system shows no
bias. Finally, the fourth possible scenario is that the WTO is working against the most powerful states.

Importantly, given the nature of the analyses, what is assessed is what took place and not what could have occurred. The workings of the WTO are a function of both its structure of agreements and procedures and how states utilize them, with the latter depending on both their internal capacity and their willingness to use the WTO mechanisms at their disposal. Accordingly, what is reasonably determined about its impacts through the analytical exercise developed in this chapter refers to how the WTO has been utilized and not to inescapable effects deriving from its structure, albeit they partially relate to its structure. Chapters 4 and 5 in turn address the structure of possibilities related to the WTO trading system. Both approaches complement each other.

The chapter is divided in three sections. The first section presents data on international trade flows, identifying the prevailing trends in merchandise and commercial services exports over the course of the last decades. The following section presents a conjectural exercise on the role the WTO has been playing in the international system, entailing the consideration of the general trends in international trade identified vis-à-vis the predictions of the narratives about the WTO. It identifies that main general trends in international trade are inconsistent with the narrative in which the WTO is biased towards the most powerful states in the international system. Although the analysis does not make it possible to determine which of the four possible scenarios stated above is most pertinent, insofar as it identifies that international trade trends are inconsistent with that narrative it provides critical insight into the role the WTO has been playing in the international system. This look at general trends provides an initial sense of whether and how the WTO affects the dynamics of the international system; analysis of specific aspects of the
workings of the WTO in chapters 4 and 5 are considered in the context of this sense of the WTO’s role in the international system based on general trends. The chapter’s third and last section expands the consideration of general trends to trade-related aspects such as foreign investment and job creation in order to probe into whether aspects other than trade flows display a pattern similar to that of the general trends in international trade flows addressed in the section preceding it. The analysis finds that they do in fact reinforce the notion of inconsistency between trade-related developments under the aegis of the WTO and the view of the WTO as a tool of the most powerful states in the system.

3.1. International Trade Trends under the WTO Trading System:

Global trade increased two hundred and sixty-three times from 1948, when the General Agreement on Tariffs and Trade (GATT) was created, to 2010. From 1994 when the GATT gave way to the WTO, to 2010 global trade grew 252%.\(^{19}\) What is more, especially in the two decades from 1990 to 2010, while developed economies saw their share of global exports decline, several developing countries incrementally gained prominence as exporters.\(^ {20}\) Most notably, China eclipsed the United States in 2007 and Germany in 2009 to become the world’s largest exporter.

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\(^{19}\) Calculated from data from the WTO Time Series on international trade.

\(^{20}\) Countries classified as either developing or developed according to the World Bank (WB) criteria for income level based on GNI per capita as measured by the World Bank Atlas method (US$), combined with the World Economic Forum’s classification of stages of development. World Bank Atlas Method criteria: Low income < $1.005; $1.006 < lower middle income < $3.975; $3.976 < upper middle income < $12.275; high income > $12.276. World Economic Forum (WEF) classification of economies by stages of development: Factor driven, transition from factor driven to efficiency driven, efficiency driven, transition from efficiency driven to innovation driven, and innovation driven. Developed countries were considered to be those high income countries, as per the WB income level criteria, whose economies are either transitioning from being efficiency driven to becoming innovation driven, or are innovation driven, as per the WEF’s 2010-11 Global Competitiveness Report. GNI per capita data from the WB (2010). Available at: http://databank.worldbank.org; Accessed July 15, 2011
of merchandise, a position further consolidated in 2010. How much of these and of other developments in global trade is attributable to the influence of the WTO is difficult to determine. As indicated by the state-system continuum discussed in the previous chapter, there are complex dynamics behind a state’s economic performance, from which it is hardly possible to completely disentangle the impact of the WTO. However, in light of developments in global trade relations it is possible to consider the possible role the WTO has played, an exercise which if not conducive to precise figures, is nonetheless instrumental for the purpose of testing the claims of the theoretical schools associated with the two main narratives of the WTO inasmuch as it illuminates both the direction and the scope of the WTO’s influence. This section accordingly considers trends in international trade flows in relation to the corresponding prospective roles of the WTO and their association with the theories of international relations related to the narratives of the tale of two WTOs.

One of the most conspicuous trends in international trade over lasting recent decades has been the growth in the share of global exports of merchandise from developing countries. Whereas in 1970 the current top 5 developed country merchandise exporters – the United States, Germany, Japan, Netherlands, and France – accounted for 40.4% of global merchandise exports, the current top 5 developing country exporters – China, the Russian Federation, Mexico, India, and Brazil – accounted for only 6.7%. In 2010 the gap between them had narrowed substantially, with the former responding for 29% and the latter for 17.7% of global merchandise exports. China has been the main protagonist of this trend of change in global merchandise exports. As Table 3.1 below demonstrates, China went from 0.7% of global merchandise exports

21 Calculated from data from the WTO Time Series on international trade.
22 Saudi Arabia and the United Arab Emirates are excluded from the developing country group due to the concentration of both their exports and their economies on oil.
23 Calculated from data from the WTO Time Series on international trade
24 Ibid.
in 1970 to a still modest 1.8% in 1990 to 3.9% in 2000 to consolidating its recently attained position as the world’s largest exporter with 10.4% of global merchandise exports in 2010.

Table 3.1: Shares of Global Merchandise Exports

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</thead>
<tbody>
<tr>
<td>China</td>
<td>0.7%</td>
<td>0.9%</td>
<td>1.8%</td>
<td>2.8%</td>
<td>3.9%</td>
<td>7.3%</td>
<td>9.6%</td>
<td>10.4%</td>
</tr>
<tr>
<td>United States</td>
<td>13.6%</td>
<td>11.1%</td>
<td>11.4%</td>
<td>11.8%</td>
<td>12.1%</td>
<td>8.6%</td>
<td>8.4%</td>
<td>8.4%</td>
</tr>
<tr>
<td>Germany</td>
<td>10.8%</td>
<td>9.5%</td>
<td>12.2%</td>
<td>9.9%</td>
<td>8.5%</td>
<td>9.3%</td>
<td>8.9%</td>
<td>8.3%</td>
</tr>
<tr>
<td>Japan</td>
<td>6.1%</td>
<td>6.4%</td>
<td>8.3%</td>
<td>9.2%</td>
<td>7.4%</td>
<td>5.7%</td>
<td>4.6%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>4.2%</td>
<td>3.6%</td>
<td>3.8%</td>
<td>3.7%</td>
<td>3.6%</td>
<td>3.9%</td>
<td>4.0%</td>
<td>3.8%</td>
</tr>
<tr>
<td>France</td>
<td>5.7%</td>
<td>5.7%</td>
<td>6.3%</td>
<td>5.8%</td>
<td>5.1%</td>
<td>4.1%</td>
<td>3.9%</td>
<td>3.4%</td>
</tr>
<tr>
<td>Korea, Rep. of</td>
<td>0.5%</td>
<td>1.1%</td>
<td>2.2%</td>
<td>3.0%</td>
<td>2.5%</td>
<td>3.5%</td>
<td>2.9%</td>
<td>3.1%</td>
</tr>
<tr>
<td>UK</td>
<td>6.1%</td>
<td>5.4%</td>
<td>5.4%</td>
<td>4.7%</td>
<td>4.4%</td>
<td>3.7%</td>
<td>2.8%</td>
<td>2.7%</td>
</tr>
</tbody>
</table>

(Source: WTO Time Series on international trade)

Table 3.1 lists the top 5 merchandise exporters in 2010 – highlighted in light gray – according to their share of world merchandise trade in 2010, and includes in addition to them the two other major developed country merchandise exporters in 1990 – France and the UK – and a country that transitioned from the developing world to the developed club over the course of this period and was among the top merchandise exporters in 2010 – the Republic of Korea. The world’s largest exporter in each year is highlighted in bold, a post which was indisputably commanded by the United States from 1948 until the late 1980s, then alternated between Germany and the United States until 2008, and was conquered by China in 2009 when it reached 9.6% of global merchandise exports against 8.9% from Germany and 8.4% from the United States. With the exception of the Netherlands, which has held a fairly stable share of global merchandise exports, all other developed countries indicated saw their share of global merchandise exports reduce from 1970 to 2010, most intensely from 1990 to 2010. By contrast, though not growing as dramatically as China, as it developed Korea’s share of global merchandise exports doubled from 1970 to 1980, doubled again in the subsequent decade, continued to grow until reaching a maximum of 3.9% in 2002, and then retreated to 3.5% in
2005 and 2.6% in the next year before returning to a growth path that took it to a share of 3.1% of global merchandise exports in 2010. During the same period, several developing countries have also increased their share of global merchandise exports since the early 1970s, most especially from the early 1990s onwards. For instance, India’s share of global merchandise exports went from 0.5% in 1990 to 1.4% in 2010.\(^\text{25}\) These figures indicate that the last few decades were characterized by a trend of change in global merchandise exports, with the shares of developed countries reducing while the shares of developing countries increased.

However, in that these figures refer to final goods, they overlook the fundamental change in the structure of international trade brought by the emergence of global value chains. With the production of final goods increasingly distributed across global production chains, exports of final goods embed imported inputs which result from several successive steps in the chain of production taking place in a number of different countries. As products are increasingly “made in the world,” international trade increasingly involves “trade in tasks” rather than “trade in goods” (WTO 2011). Accordingly, “[exports] of final goods are no longer an appropriate indicator of the (international) competitiveness of countries, as following the emergence of global value chains, final goods increasingly include a large proportion of intermediate goods that have been imported into the country” (Backer and Yamano 2007, 6-7). Indeed, “[attributing] the entire commercial value of an exported good to the last link of the chain – the economy exporting the final good – can lead to a statistical bias and to misunderstandings, which may alter trade analysis and have potential implications for trade policy and multilateral trade negotiations” (WTO 2011, 94). For this reason, measuring trade in value added rather than in the value of final goods provides a picture of international trade which is more germane to the reality of the globalization of production.

\(^{25}\) Calculated from data from the WTO Time Series on international trade.
International Input-Output (I-O) Tables provide a functional methodological framework for estimating trade in value added. According to Backer and Yamano, notwithstanding its limitations, “I-O data are the most readily available source of information to gain insight into the increasing dependency of countries’ export performance on imports” (Backer and Yamano 2007, 24). They accordingly found that the import content of exports increased in 33 of 34 OECD members from 1995 to 2000, “clearly illustrating growing interdependence” (Backer and Yamano 2007, 22). That stresses the need to take into account the globalization of production in order to attain proper measures of international trade flows. For instance, in the mid-2000s, office, accounting and computing machinery exports from China had a ratio of embedded imports of 0.524, that is, more than 50% of their value referred to imports incorporated into the production of the final good exported by China.\(^\text{26}\) Even more telling of the impact of global value chains is the fact that China accounts for only 4% of the $1.9 billion US trade deficit in iPhones with China, the bulk of which actually owe to imports from Japan (36%), Germany (18%), and Korea (14%).\(^\text{27}\) Along these lines, accounting for value added chains the US trade deficit with China has been estimated to have been lower by 20% in 2000, 53% in 2005, and 42% in 2008.\(^\text{28}\)

Table 3.2 shows estimates for shares of merchandise exports adjusted for the implications of value added chains. They were calculated using the OECD Structural Analysis I-O measure of the import content of exports. Each country’s total exports according to the WTO Time Series on international trade was thus adjusted based on its ratio of import content. To adjust the total global exports a weighted coefficient was calculated based on the top 25 merchandise exporters in 2010, excluding Saudi Arabia, the United Arab Emirates, Malaysia and Thailand, since the OECD STAN I-O Database does not provide measures of the import content of their exports. In


\(^{27}\) WTO: Trade patterns and global value chains in East Asia: From trade in goods to trade in tasks, 2010, p. 105

\(^{28}\) Ibid. p. 104
addition, the concentration of their exports on oil provides reason to exclude Saudi Arabia and the United Arab Emirates. The shares of trade in value added were obtained through the quotient of each country’s exports adjusted to reflect its total value deduced from the import content of exports and the adjusted value for total global exports.

Table 3.2: Shares of Global Merchandise Exports, Value Added

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>2.0%</td>
<td>3.2%</td>
<td>4.4%</td>
<td>7.6%</td>
<td>10.0%</td>
<td>10.8%</td>
</tr>
<tr>
<td>United States</td>
<td>13.5%</td>
<td>14.1%</td>
<td>14.7%</td>
<td>10.6%</td>
<td>10.4%</td>
<td>10.3%</td>
</tr>
<tr>
<td>Germany</td>
<td>12.7%</td>
<td>10.3%</td>
<td>8.7%</td>
<td>9.6%</td>
<td>9.3%</td>
<td>8.6%</td>
</tr>
<tr>
<td>Japan</td>
<td>10.2%</td>
<td>11.3%</td>
<td>9.5%</td>
<td>7.0%</td>
<td>5.7%</td>
<td>6.2%</td>
</tr>
<tr>
<td>France</td>
<td>6.4%</td>
<td>5.9%</td>
<td>4.9%</td>
<td>4.4%</td>
<td>3.9%</td>
<td>3.4%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>3.0%</td>
<td>2.9%</td>
<td>2.7%</td>
<td>3.0%</td>
<td>3.1%</td>
<td>2.9%</td>
</tr>
<tr>
<td>UK</td>
<td>5.3%</td>
<td>4.7%</td>
<td>4.5%</td>
<td>3.9%</td>
<td>3.0%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Korea, Rep. of</td>
<td>1.5%</td>
<td>1.8%</td>
<td>2.2%</td>
<td>2.4%</td>
<td>2.5%</td>
<td>2.7%</td>
</tr>
</tbody>
</table>

(Source: Calculated from WTO Time Series on international trade; OECD STAN I-O Database)

The shares of exports in value added tell a different story in relation to the traditional measure referring to final goods, albeit the same general trend can be observed. The combined share of the top 5 developed country exporters is higher than that indicated by the measure based on final goods both in 1990 – 45.8% versus 40.4% – and 2010 – 31.4% versus 29%.\(^{29}\) Whereas this indicates that developed countries had lower than average import content of exports during this period, it also shows a greater drop in their share of global merchandise exports – 14.4% versus 11.4%. This is due to the fact that while the import content of exports of both developed and developing countries increased in this period, it increased more pronouncedly among the top 5 developed countries – 39.8% versus 4.2%.\(^{30}\) That is, because in 1990 the average ratio of import content in their exports was much lower than the global average than it was in 2010, in 1990 developed countries accounted for a greater share of global merchandise exports than that

\(^{29}\) Calculated from WTO Time Series on international trade and OECD STAN I-O Database.

\(^{30}\) Weighted average calculated from WTO Time Series on international trade and OECD STAN I-O Database.
indicated by data on exports of final goods insofar as the exports of developing countries contained a relatively high import content. With the import content of their exports increasing more than that of developing countries, accounting for the value added in exports produces a less marked adjustment in their favor in 2010. Yet whereas this explains why the reduction in the share of global merchandise exports of the top 5 developed country exporters is greater when calculated for value added rather than the value of final goods, it does not change the fact that the priced volume of merchandise exports of developing countries increased more than that of developed countries. Indeed, even when considered in terms of value added, the priced volume of merchandise exports of the top 5 developed country exporters grew less than that of the top 5 developing country exporters – 275% against 1086%.\textsuperscript{31} Table 3.3 below compares the rates of growth of merchandise exports of developed and developing countries between 1990 and 2010, both as regards the value of final goods exported and in terms of the value added exported.

Although when the change in merchandise exports is calculated in terms of value added some significant differences can be identified in relation to the figures for the value of final goods, it does not alter the fact that the exports of developing countries grew substantially more than those of developed countries during this period. To be sure, part of the difference in the rates of growth of merchandise exports of developed and developing countries derives from differences in price fluctuations between the types of products they export, with developing countries benefitting from the increase in commodity prices throughout the 2000s. But some of the developing countries whose exports increased more than the world average rate of growth – specially China – as well as countries such as Korea and Singapore that transitioned into the developed world over the course of the last few decades, have become prominent exporters of

\textsuperscript{31} Calculated from WTO Time Series on international trade and OECD STAN I-O Database. Because the OECD STAN I-O
durable and non-durable consumer products such as personal electronics, household appliances and automobiles, thereby experiencing effects of international price fluctuations similar to those for developed countries. Yet China’s distinctive currency regime is widely understood as a contributing factor to its extraordinary export performance for conferring on Chinese exporters a singular competitive advantage against exporters from both developed and developing countries as well as domestic producers in the markets to which Chinese products are exported. Nonetheless, at the same time that it helps its volume of trade, to the extent that it makes unit prices lower, China’s currency regime also constrains the value of Chinese exports. Therefore, the impact of price differences should not be overplayed.

**Table 3.3: Merchandise Exports Growth 1990-2010**

<table>
<thead>
<tr>
<th></th>
<th>Final Products</th>
<th>Value Added</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>2444% China</td>
<td>2023%</td>
</tr>
<tr>
<td>India</td>
<td>1100% India</td>
<td>1017%</td>
</tr>
<tr>
<td>Mexico*</td>
<td>632% Mexico*</td>
<td>632%</td>
</tr>
<tr>
<td>Russia Federation*</td>
<td>627% Russia Federation*</td>
<td>614%</td>
</tr>
<tr>
<td>Korean Republic*</td>
<td>617% Korean Republic*</td>
<td>614%</td>
</tr>
<tr>
<td>Singapore*</td>
<td>567% Singapore*</td>
<td>546%</td>
</tr>
<tr>
<td>Brazil</td>
<td>543% Brazil</td>
<td>502%</td>
</tr>
<tr>
<td>Australia</td>
<td>433% Australia</td>
<td>423%</td>
</tr>
<tr>
<td>HK, China*</td>
<td>387%</td>
<td>World</td>
</tr>
<tr>
<td><strong>World</strong></td>
<td><strong>341%</strong></td>
<td><strong>299%</strong></td>
</tr>
<tr>
<td>Spain</td>
<td>339% Spain</td>
<td>274%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>334% HK, China*</td>
<td>270%</td>
</tr>
<tr>
<td>Taipei, Chinese</td>
<td>308% Belgium*</td>
<td>228%</td>
</tr>
<tr>
<td>Belgium*</td>
<td>264% Taipei, Chinese</td>
<td>211%</td>
</tr>
<tr>
<td>United States</td>
<td>225% United States</td>
<td>206%</td>
</tr>
<tr>
<td>Switzerland*</td>
<td>206% Switzerland*</td>
<td>206%</td>
</tr>
<tr>
<td>Germany</td>
<td>202% Canada</td>
<td>206%</td>
</tr>
<tr>
<td>Canada</td>
<td>202% Germany</td>
<td>170%</td>
</tr>
<tr>
<td>Japan</td>
<td>167% Japan</td>
<td>143%</td>
</tr>
<tr>
<td>Italy</td>
<td>164% Italy</td>
<td>138%</td>
</tr>
<tr>
<td>France</td>
<td>140% UK</td>
<td>114%</td>
</tr>
<tr>
<td>UK</td>
<td>119% France</td>
<td>112%</td>
</tr>
</tbody>
</table>

(Source: Calculated from WTO Time Series on international trade; OECD STAN I-O Database)
* Due to lack of indicators in either or both time periods, the nearest available indicator was used.

125
Among all of those countries listed in table 3, Canada was the only whose percentage of change in exports of merchandise increased when the imported content of exports was taken into account. That derives from the fact that Canada was the only one whose ratio of imported content in exports decreased from 1990, when it was already relatively high, to 2010, when it nonetheless remained one of the highest among developed countries. Other changes were invariably reductions reflecting varying increases in the imported content of exports. Those changes, however, did not produce dramatic alterations in the ranking of growth in merchandise exports; such changes in the ranking – highlighted in light gray on table 3 – involved either developing countries being surpassed by developed countries because the growth of some developing countries was more intensely dependent on their integration to global value chains, and correspondingly on the incorporation of higher levels of imported content on their exports, or developed countries switching places because one incorporated higher levels of imported content on their exports than the other during that period. In turn, though their rates of growth in the value added in exports was lower than that in the value of the final goods they exported, the rates of growth in merchandise exports of developing countries with the greatest rates of growth remained considerably above the world average. Most notably, though China’s rate of growth fell from 2444% to 2023% from one measure to the other, China continued with an unrivalled rate of growth in merchandise exports in the period (see Table 3 above). India’s rate of growth did not change as much – going from 1100% to 1017% – because India’s ratio of imported content in its exports did not grow as much and in fact remains relatively low. In turn, except for Australia, every other developed country remained below the world average rate of growth, even though the average dropped from 341% to 299%. This consolidates the notion that while the exports of the top developed and developing country exporters grew from 1990 to 2010, the
largest portion of the growth in global merchandise trade in the period was commanded by developing countries.

The fact that developed countries lost shares of global merchandise exports to developing countries as a result of exports from developing countries increasing much more pronouncedly from 1990 to 2010 not only conveys a trend of change in the distribution of global exporters, but also, and most importantly, reflects a structural change in the global economy comprising both improvements in the economic condition of developing countries, which enhanced their exporting capacity, and the expansion of global value chains. Such change obviously involve much more than that which pertains to the provisions of the WTO Agreements, but as they took place while international trade was conducted under the aegis of the WTO trading system, at a minimum the WTO did not block them from happening, which is a relevant determination for considerations about the tale of two WTOs.

Yet the impacts of those changes on exports varied across developing countries. Whereas the meteoric rise of China’s exports constitutes an emblematic case, other developing countries show a much more gradual trend. As Figure 3.1 below demonstrates, with figures in terms of value added, though clearly in a trend of growth, the shares of merchandise exports of other BRIC countries and Mexico, which encompass the top developing country merchandise exporters in 2010, have grown much slower than China’s.\footnote{Saudi Arabia and the United Arab Emirates were deliberately left out due to concentration of their exports in particular, and their economies in general, on oil.}
Conversely, Figure 3.2 below denotes a downward trend in the shares of global merchandise exports (in terms of value added) commanded by the top 5 developed country merchandise exporters in 2010.
As much as Figures 3.1 and 3.2 illustrate contrasting trends, they also denote that despite their extensively superior rates of growth in merchandise exports over the two decades indicated, aside from China developing countries still have markedly lower shares of global merchandise exports, especially in relation to the United States, Germany, and Japan. China is indeed an exceptional case, and given that considering exports in terms of value added does change which country holds the position of the largest exporter in the world before 2010, it does not deny the general trend verified when exports are measured according to the value of final goods, an exercise which identifies China as the world’s largest merchandise exporter in 2010. In terms of the value added in merchandise exports, as indicated in table 2 above Germany was never the world’s largest merchandise exporter; the post belonged solely to the United States until 2009. China did become the world’s largest exporter of merchandise goods, but in 2010 and not in 2009 as indicated by export data referring to the value of final goods. Besides, the difference between China’s and the United States’ share of global merchandise exports in 2010 is much smaller when the imported content of exports is taken into account – 10.8% versus 10.3% – than when calculated based on the entire value of final goods – 10.4% versus 8.4%. Therefore, taking into account the imported content of exports demonstrates a less pronounced advancement of China’s export performance particularly in relation to that of the United States, albeit it does not alter the fact that by 2010 China had become the world’s largest exporter of merchandise.

Though less accentuated than that for merchandise exports, the trend for global exports of commercial services similarly shows developing countries incrementally increasing their shares of global exports. As Table 3.4 below demonstrates, China’s share of global exports of commercial services grew markedly making China eclipse France and Japan, but it remained far from the United States and also below Germany and the UK in 2010. Countries are listed in
Table 3.4 in descending order based on their share of global commercial services exports in 2010. All top 10 commercial services exporters in 2010 are included; in addition to those a few other countries, which do not necessarily follow immediately the top 10, are included for specific reasons: one of them – Korea – transitioned into the developed world, and two of them – Italy and Canada – are developed countries included to further reference the advancement of China, India, Korea, and Singapore.

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>10.4%</td>
<td>17.0%</td>
<td>17.5%</td>
<td>18.5%</td>
<td>14.1%</td>
<td>14.1%</td>
</tr>
<tr>
<td>Germany</td>
<td>7.6%</td>
<td>6.5%</td>
<td>5.7%</td>
<td>5.4%</td>
<td>6.4%</td>
<td>6.3%</td>
</tr>
<tr>
<td>UK</td>
<td>9.3%</td>
<td>6.9%</td>
<td>6.6%</td>
<td>8.0%</td>
<td>8.2%</td>
<td>6.2%</td>
</tr>
<tr>
<td>China</td>
<td>0.0%</td>
<td>0.7%</td>
<td>1.6%</td>
<td>2.0%</td>
<td>3.0%</td>
<td>4.6%</td>
</tr>
<tr>
<td>France</td>
<td>11.5%</td>
<td>8.5%</td>
<td>7.2%</td>
<td>5.5%</td>
<td>4.9%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Japan</td>
<td>5.1%</td>
<td>5.3%</td>
<td>5.5%</td>
<td>4.7%</td>
<td>4.1%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Spain</td>
<td>3.1%</td>
<td>3.5%</td>
<td>3.2%</td>
<td>3.5%</td>
<td>3.8%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>4.5%</td>
<td>3.6%</td>
<td>3.9%</td>
<td>3.3%</td>
<td>3.6%</td>
<td>3.0%</td>
</tr>
<tr>
<td>India</td>
<td>0.8%</td>
<td>0.6%</td>
<td>0.6%</td>
<td>1.1%</td>
<td>2.1%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Singapore</td>
<td>1.3%</td>
<td>1.6%</td>
<td>2.2%</td>
<td>1.9%</td>
<td>2.2%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Italy</td>
<td>5.1%</td>
<td>6.2%</td>
<td>5.1%</td>
<td>3.8%</td>
<td>3.5%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Korea, Rep. of</td>
<td>1.3%</td>
<td>1.2%</td>
<td>1.6%</td>
<td>2.1%</td>
<td>1.9%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Canada</td>
<td>1.9%</td>
<td>2.3%</td>
<td>2.2%</td>
<td>2.7%</td>
<td>2.2%</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

(Source: WTO Time Series on international trade)

The most salient change was the drop in France’s share of global exports of commercial services from 11.5% in 1980, when it was the world’s largest exporter of commercial services, to 3.8% in 2010, below China. Like China’s, India’s share of global exports of commercial services grew pronouncedly, reaching 3.0% in 2010 from just 0.8% in 1980. Most notably, except for the United States, from 1980 to 2010 all top commercial services exporters among developed countries lost considerable shares of global exports while the opposite occurred among the top 5 developing country exporters of commercial services.
When the imported content of commercial services exports is factored in, the resulting figures for commercial services exports measured in terms of the value added by each country upholds the trend revealed by the figures on the final value of commercial services exported. Whereas the top 5 developed country commercial services exporters in 1990 – US, France, UK, Germany, and Italy – responded for 47% of global commercial services exports, the top 5 in 2010 – US, UK, Germany, Japan, and France – had 37% of global commercial services exports.

Table 3.5: Commercial Services Exports, Value Added

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>18.4%</td>
<td>18.9%</td>
<td>20.4%</td>
<td>15.8%</td>
<td>15.8%</td>
</tr>
<tr>
<td>UK</td>
<td>6.8%</td>
<td>6.5%</td>
<td>8.3%</td>
<td>8.6%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Germany</td>
<td>6.7%</td>
<td>5.8%</td>
<td>5.5%</td>
<td>6.7%</td>
<td>6.5%</td>
</tr>
<tr>
<td>China</td>
<td>0.7%</td>
<td>1.6%</td>
<td>2.1%</td>
<td>3.0%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Japan</td>
<td>5.7%</td>
<td>5.9%</td>
<td>5.1%</td>
<td>4.5%</td>
<td>4.1%</td>
</tr>
<tr>
<td>France</td>
<td>8.8%</td>
<td>7.5%</td>
<td>5.7%</td>
<td>5.1%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Spain</td>
<td>3.6%</td>
<td>3.3%</td>
<td>3.5%</td>
<td>3.8%</td>
<td>3.3%</td>
</tr>
<tr>
<td>India</td>
<td>0.6%</td>
<td>0.6%</td>
<td>1.2%</td>
<td>2.3%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>3.4%</td>
<td>3.6%</td>
<td>3.0%</td>
<td>3.4%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Italy</td>
<td>6.2%</td>
<td>5.1%</td>
<td>3.9%</td>
<td>3.7%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Singapore</td>
<td>1.4%</td>
<td>1.9%</td>
<td>1.5%</td>
<td>1.8%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Korea, Rep. of</td>
<td>1.0%</td>
<td>1.4%</td>
<td>1.8%</td>
<td>1.7%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Canada</td>
<td>2.3%</td>
<td>2.2%</td>
<td>2.6%</td>
<td>2.3%</td>
<td>1.9%</td>
</tr>
</tbody>
</table>

(Source: WTO Time Series on international trade)

As indicated in table 3.5, taking the imported content of commercial services exports into account reveals that the United States had a greater share of global commercial services exports than what is indicated when commercial services exports are measured by their final value. The lead the United States had in 2010 over the second largest exporter of commercial services is accordingly demonstrated to have been in fact greater – 9.2% instead of 7.8%. This derives from the fact that the United States had a ratio of imported content of commercial services – 0.033 in 1990 and 0.065 in 2010 – considerably lower than the world average for the entire period – 0.106
in 1990 and 0.148 in 2010.\textsuperscript{33} For the same reason the shares of the UK, Germany, China, Japan, France, India, Italy, and Canada increased, whereas the shares of the Netherlands, Singapore, and Korea decreased because their exports of commercial services incorporate more imported content than the world average. That produced some changes in the 2010 ranking as well as a slight increase in the share of the top 5 developing countries – from 10.7\% to 10.9\%.\textsuperscript{34} But they nonetheless grew from 6\% in 1990; indeed, though it remained by far the largest exporter of commercial services, the United States lost part of its share of global exports of commercial services from 2000 to 2010 because whereas its commercial services exports increased 87\% in the period, those of many other countries increased much more pronouncedly, including both developed – e.g. Germany’s increased 187\% – and especially some developing countries – e.g. India’s increased 593\% and China’s increased 437\%.\textsuperscript{35} The trend of increase in the share of global commercial services exports that developing countries enjoy thus remains unaltered when the import content of commercial services exports is taken into account.

3.2. International Trade Trends and the Role of the WTO:

What role might the WTO have played in light of these developments in international trade relations; namely a general trend in which developing countries increased their share of global merchandise and commercial services exports relative to developed countries? To begin with, what is most evident is that the WTO provided an international regulatory environment for

\textsuperscript{33} Calculated from WTO Time Series on international trade and OECD STAN I-O Database. The weighted average for the top 25 commercial services exporters – based on the 2010 ranking – was utilized as the world average.

\textsuperscript{34} Calculated from WTO Time Series on international trade and OECD STAN I-O Database. Due to the lack of data on the imported content of commercial services for Thailand, its adjusted value was alternatively calculated employing data from Indonesia, which according to the 2010 World Economic Forum Global Competitiveness Report is an efficiency-driven economy like Thailand’s.

\textsuperscript{35} Calculated from WTO Time Series on international trade and OECD STAN I-O Database.
trade which *enabled* global merchandise and commercial exports to increase substantially in a
continuous way while developing countries’ exports grew faster than exports from developed
countries. That is to say, regardless of having favored or disfavored any country with respect to
increasing its exports, the WTO at a minimum did not preclude developing countries from
increasing their exports faster than developed countries while both increased their merchandise
and commercial exports. From a different angle, even if its agreements were not conducive to the
loss of shares of global merchandise exports by developed countries, the WTO did not prevent
that from happening. Therefore, though just from a general trend in exports it is not possible to
determine whether the WTO had any specific direct influence on the export performance of
countries, it is nonetheless possible to infer that the international trade regime established under
its provisions allowed late developers to increase their share of global merchandise exports.

As regards merchandise exports, the fact that there was considerable variation in the
extent to which countries increased their merchandise exports, both within and between the
developed and developing world, underscores the notion that the WTO provided opportunities
for countries to become successful exporters but did not alone make this happen. Indeed, the
most obvious candidate for having received favorable conditions if the WTO were flagrantly
biased – China, due to its extraordinary export performance – was not a WTO member until
2001 and it is inconceivable that any member or group of members before that designed any
agreement intended to give China a relative advantage. In this perspective, in a broader sense, the
fact that less developed countries were able to gain on more developed ones in terms of their
share of global merchandise exports is in line with the objective of “reducing obstacles to
international trade and ensuring a level playing field for all” as indicated in the WTO’s mission
statement. That is so because within a fairly level playing field it was only natural for developing countries to play a greater role than they had as exporters once they developed the necessary conditions. Whereas in the past they had been relegated to a limited secondary role due to their feeble economic condition, economic and political reforms starting in the 1960s and 1970s in some countries but most extensively taking place from the 1990s onwards, combined with reducing marginal returns in developed economies and the globalization of production, prompted developing countries to incrementally playing a much larger role in the global economy than they had ever played in the past. Accordingly, developing countries were well positioned for relative growth in merchandise exports save for the forceful imposition of an unyielding impediment. In this perspective, the trend of developing countries increasing their share of global merchandise exports is analogous to the adjustment which took place from 1948, when the United States accounted for 21.8% of global merchandise exports (in final goods figures), to the early 1970s, when Europe and Japan had recovered from World War II making the global economy, and global merchandise exports more specifically, less concentrated. In this context, those developing countries which were more successful reformers and whose reforms oriented their economies outwards more intensely, were able to seize exporting opportunities more extensively.

Whereas the export performance of developing countries varied as a function of capabilities and private and public engagement towards merchandise exporting, what is significant with respect to assessing the role of the WTO is that at the very least the WTO did not impede developing countries from increasing their share of global exports. This does not rule out certain specific effects it might have had either in favor or against certain countries, but even if in

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37 Calculated from WTO Time Series on international trade.
fact such effects existed, the trend in merchandise exports is nonetheless telling of their likely scope and orientation as possible effects are considered against the expectations of the theoretical schools associated with the tale of two WTOs. Under the assumption that larger exports represent greater competitiveness and generate relative gains in economic condition, the fact that developing countries have increased their share of global merchandise exports clashes with the realist view that the most powerful states in the system create and shape international institutions with the intent of them serving to maximize their power. Insofar as exports affect a state’s economic condition they impact on its economic power assets in a way that an increase in one is associated with an increase in the other, though not necessarily in linear fashion. The fact that the exports of developing countries increased more than those of developed countries accordingly signifies relative gains in economic power to developing countries, a result inimical to the realist prediction that international economic institutions would contribute to maximizing the economic power of the economically more powerful. In a broad sense this trend thus poses a challenge to the realist view of international institutions and to the corresponding narrative that the WTO, like other international institutions, serves to perpetuate the hierarchy of power in the international system.

Several objections can be made about the inference that the trend of increase in the share of global merchandise exports enjoyed by developing countries is inconsistent with the narrative of the WTO associated with the realist view of international institutions. First, the extent to which changes in exports can be attributed to the provisions established by WTO agreements is unclear; as discussed in the previous chapter, there are numerous factors behind a state’s economic performance, and it is virtually impossible to completely isolate each of them. This limits any consideration that the WTO had an impact inconsistent with realist predictions,
particularly at this level of general trends. Yet in the same way it circumscribes any claim that the WTO serves the interests of the most powerful states in the system, especially since there is so much pertaining to economic activity within states that is outside its sphere of influence. More importantly, the most consequential issue based on the general trends in trade flows identified in the previous section refers to what the WTO trading system is not preventing from happening.

A second objection would be that the extent to which trade affects economic development is an unsettled issue (e.g. Frankel and Romer 1999; Freeman 2003; Singh 2010), thereby casting doubt on whether and to what extent the loss of their share in global merchandise exports in fact impinges on the economic condition, and thus on the economic power, of developed countries. Yet the same indetermination is applicable to the opposite possibility of the WTO prospectively contributing to enhance the power position of the most advanced economies. This point in fact highlights the primacy of each state’s internal dynamics for its developmental trajectory. Moreover, while recognizing that exports are no panacea for economic development, when exports are considered as both generators of additional national income and catalysts of innovation and increased productivity, a country’s export performance clearly influences its economic trajectory, even if not always in a welfare-enhancing manner. The corresponding impact is mainly contingent on the nature of what is exported and on how the revenues generated relate to the dynamics of economic activity in the country. When export growth entails increasing diversification and sophistication of exports, as is the case especially in countries such as China, India, Korea, and Singapore, it can be expected to constitute a constructive force.

A third objection refers to whether or not developed countries are increasing their competitiveness even though their shares of global merchandise exports have declined. When global value chains are taken into account, part of the reason the exports of developed countries
did not grow as much as those of developing countries is that the increase in the imported content of their exports was more pronounced. This development is easily associated with declining competitiveness, since it suggests greater dependence on imported content. But an increase in the imported content of exports might instead signal “the opposite if a country successfully integrates into global value chains of high-growth industries” (Backer and Yamano 2007, 26). This does not change the fact that there was a reduction in the share of global exports from developed countries, but it may qualify it as partially a competitive adjustment.

A fourth objection expands on the notion of competitive adjustment in the context of changing economic realities, emphasizing that the ascent of developing countries to more prominent roles in the global economy was virtually unavoidable once they developed the necessary conditions. From this perspective, for developed countries losing some of their share of global exports under WTO provisions, as opposed to in an unruly environment for international trade, was possibly the least worst alternative. Whereas some relative loss was inevitable, the WTO-based international trade regime might have served to maximize absolute gains while minimizing relative losses for developed countries as regards their share of global exports. Nonetheless, this does not supersede the critical consequences of shifts in economic power deriving from trade-related alterations in the distribution of economic capabilities. Even if somewhat reduced compared to how they might otherwise have been, relative changes in export performance may have systemic consequences insofar as they involve changes in economic power sufficient to alter core constitutive elements of the system – the hierarchy of prestige and/or the structure of incentives. That is, if shifts in export performance have economic repercussions of systemic importance, in line with specifications C and D in the schematic conceptualization of change in the international system depicted in Figure 2.2 of chapter 2, no
matter whether such shifts are smaller than they would otherwise be, new systems are being generated, and that means that the position of those heretofore most powerful may be in jeopardy.

Fifth, even beyond the possibility of constituting a serviceable instrument for developed countries to minimize relative economic losses while maximizing absolute economic gains, it is possible that the loss of some of their share of global exports was offset by gains in other domains. In this perspective, along the lines of G. John Ikenberry’s (1998) argument about the relationship between the post-WWII liberal international order and the endurance of US hegemony, those losses may have been an acceptable part of a grand bargain through which the most advanced and powerful states benefitted not only from a structured and predictable environment for trade and relatedly for investment, but also from the peace-conduciveness of the multilateral institutionalization of trade relations. But again, even if somehow offset by gains for developed countries in other domains, insofar as there is only so much relative loss in economic condition that the most powerful states can sustain before a change in the distribution of economic power assets that is consequential for their position in the system takes place, a short-term balance compensating losses in global economic relations with benefits from other domains tends to erode over time. Not even a masterfully designed and managed balance between the gains the most powerful states accrue elsewhere and the losses they sustain in the global export market across time horizons could possibly ensure an ultimate net power gain for them; that would require not only that they had control over a lot more than just trade relations, but also unrealizable foresight. For instance, it is inconceivable that at the inception of the GATT its designers foresaw the global value chains which emerged in the last decades. If specifically designed for the benefit of the most powerful states at that moment, the GATT would have
required continuous adjustments by them to keep working according to such designed purpose, but the difficulties in concluding negotiation rounds attest to their inability to fully exploit their power advantages to that end.

On the one hand, these considerations caution against making too much of the inconsistency between the trend of decline in the share of global merchandise exports commanded by developed countries and the realist prediction that international institutions such as the WTO serve to enhance the power positions of the most powerful states in the system. On the other hand, however, the simple fact that the WTO-based international trade regime did allow developing countries to increase their share of global merchandise exports instead of constituting a straitjacket indicates that it has an open character in line with its underlying principles and professed goals. This suggests that rather than rigidly favoring the most powerful states in the system, the direction of its impact is open and contingent on how the interactive dynamics of the constellation of state-system continuums in the international system affects the export performance of states, which in recent decades generated gains in export shares of merchandise for developing countries. Therefore, since it does not preclude eventual changes in the distribution of power, either the WTO plays no role in favor of developed and more powerful states or if it does the scope of its impact is fairly limited. Borrowing from legal process, this establishes reasonable doubt about the pertinence of the narrative of the WTO associated with realist view of international institutions.

The trend in the export flows of commercial services follows the same pattern verified in merchandise exports. That the United States’ share of global commercial services increased from 1990 (18.4%) to 2000 (20.4%), in value added figures, and remained much higher than that of
any other country in 2010, is relevant as it may signal successful competitive specialization.\textsuperscript{38} What is more, the fact that the United States retains a marked lead in commercial services exports and that the developing country with the largest share of commercial services exports in 2010 – China – is still significantly also behind the UK and Germany indicates that developed countries continue to have greater competitive advantage in commercial services than in merchandise exports. Following the same logic of analysis employed above, through the prism of WTO provisions circumscribing trade in commercial services this could be interpreted minimally as something that was enabled by the WTO’s regulatory framework. But it also allowed the United States to lose market share from 2000 (20.4\%) to 2010 (15.8\%), as well as allowed other developed countries to lose parts of their share of global commercial services throughout from 1990 to 2010.\textsuperscript{39} At the same time, it allowed developing countries to increase their share of global commercial services, which is tantamount to saying that the WTO did not prevent any of these developments from happening. Thus, even if among developed countries the largest economy and most powerful state had an exceptional performance, what can be inferred from the changes that took place is more relevantly related to what was not impeded. The fact that even where they are more competitively specialized their share of exports is eroding denotes that either the WTO plays no role in favor of developed and more powerful states or if it does the scope of its impact is fairly limited. Data on international trade flows – at this level of aggregation – does not allow going beyond this inference, but this inference suffices to question the validity of the narrative of the WTO related to the realist view of international institutions.

Importantly, identifiable general trends tell the story of what happened and may hint at the near future, but they do not identify deterministic orientations. The conclusion reached by

\textsuperscript{38} Calculated from data from WTO Time Series on international trade.
\textsuperscript{39} Calculated from data from WTO Time Series on international trade.
Findlay and O’Rourke in their survey of the history of international trade since the year 1000, that “extrapolating the immediate past into the indefinite future and calling it a prediction is a hopeless endeavor” (Findlay and O’Rourke 2007, 527), both underscores the complex and dynamic characterization of the state-system interconnections in the previous chapter and advises against rigid predictions based on general patterns. That there is a trend of increase in the share of global commercial services exports commanded by developing countries does not mean the trend is irreversible; it simply means that it has been possible for developing countries to gain on developed ones in the commercial services exports market. That in turn enables inferring that the WTO-based international trade regime has not shown developments consistent with the narrative that it handicaps the economic prospects of the least powerful states and instead enables inferring that it has functioned more in line with the narrative that it facilitates trade relations providing a reasonably level playing field. Whether or not states utilize that playing field to their benefit is contingent on how interested and successful private and public actors prove to be in pursuing conditions to improve their trade performance.

3.3. Trade-Related Trends and the Role of the WTO:

In order to gain further insight into the role of the WTO, it is constructive to go beyond trends in exports and investigate specific implications the international trade regime might have been having for the relative economic condition of states. Evidence from different aspects of the prospective effect of trade on a state’s economic condition help evaluating whether the trends verified in export flows are isolated phenomena or are in line with other spheres of economic
activity related to the WTO trading system. Studies on jobs affected by trade and on foreign
direct investment flows are consistent with the inferences drawn from exports flows above.

The impact of trade on jobs remains a politically-charged issue, mainly because the
consequences of job losses to trade are concentrated whereas the benefits from trade are
dispersed. Usually, those jobs directly lost due to either import competition or the transfer of
production to other countries are the ones that catch public attention. But their repercussions
throughout the economy are also relevant to a country’s economy, and thus to shifts in relative
economic conditions. In view of that, the most straightforward way to check whether the impact
of trade on jobs follows the same pattern verified in export flows is to assess the United States’
record vis-à-vis the narrative according to which it should be the main beneficiary of the WTO
trading system. The fact that developments in trade relations in line with structural changes in the
global economy have caused the United States to incur net losses of jobs to trade over most of
the last couple of decades (Groshen et. al. 2005) reveals a negative contributor to the economic
condition of the most powerful state in the system in relation to other countries, especially in the
developing world. According to Groshen et. al. (2005), the United States lost 2.6 million jobs to
trade just in 2003, a loss they considered modest because it represented only 2.4% of total
employment. Yet not only that was nonetheless a loss, but also, and most importantly, it befit a
trend that had begun in 1997 of increasingly greater job losses to trade relative to preceding years
both in absolute numbers and as a share of total employment. The fact that the US trade deficit
continued to increase throughout the 2000s, a trend that was interrupted only in 2009 when for

40 Utilizing I-O tables from the US Bureau of Labor Statistics and accounting for both direct and support jobs in
order to capture the multiplier effect of trade-related job losses, Groshen et.al. calculated the number of jobs needed
to produce US net imports in the US, which constitute the loss in jobs in the US corresponding to its trade deficit. According
to this logic, as long as there is a trade deficit there is a corresponding loss in jobs referring to the jobs
that would exist if that trade deficit were instead produced domestically, the point being that there are less jobs
generated by exports than those lost to imports
the first time since 2001 the deficit was lower than the preceding year (but still a deficit) suggests that the trend of increasingly greater job losses to trade continued and will persist while the US continues to have trade deficits. What is more, whereas Groshen et. al. (2005) recognize that trade may have the effect of suppressing the creation of new jobs, their measure does not capture the consequences of unrealized export potential. Jobs which could have been created to supply export markets but that are created elsewhere remain unaccounted for, accordingly keeping job losses to trade underestimated. To be fair, estimating those losses is a challenging task, and likewise, as they admit they do not account for the wealth-increasing benefits of trade, which causes the benefits from trade to also be underestimated. Yet these effects do not cancel each other out; indeed, lower prices have a wealth-increasing effect, but they are no good for workers displaced by trade which cannot find alternative placement because their skills either are not easily transferable or simply became obsolete. It could be possible that this trend constitutes part of a process of adjustment which may eventually position the United States to take greater advantage of the globalization of production, but that remains questionable since, as evinced by the current economic travails, not only it has followed a reactive rather than proactive stance concerning the correspondingly needed structural changes in its economy, but also, it has been lackluster even at that. Moreover, the losses already incurred not only have already negatively affected its economic condition relative to those which conversely gained investments and jobs, but also contributed for structural changes improving the economic prospects of net winners of jobs going forward.

The broader popular perception about how developments in trade affect job markets worldwide is that developed economies have been losing jobs to the developing world especially due to wage differentials favoring the offshoring of production from developed countries. This
view implies that lower tariffs and regulated trade relations negotiated through and taking place under the aegis of the WTO have created an environment conducive to the transfer of part of the production from developed countries to the developing world, thereby causing jobs to move correspondingly. Such popular perception is generally exaggerated for overemphasizing the instances in which job losses occur – offshoring and business closings due to increased competition from imports – while mainly overlooking jobs gained from trade – through greater exports or the distribution and sale of imports, as well as from gains from competitive specialization and from economic activity generated to tap surplus income freed by lower prices resulting from greater competition from imports. Whereas inclusively accounting for all these effects is challenging, thus advising caution with which conclusions to draw from any analysis, since these considerations apply to any country, the negative impacts of trade on jobs are overemphasized while positive impacts are underappreciated in assessments not only of the United States but also of any other country. Importantly, though, the WTO-based international trade regime is the medium for those developments and not what centrally causes them; the causes reside in changes in the dynamic interweave of state-system continuums which are heavily contingent on political and economic developments internal to states, with the role of the trade regime limited to facilitating interrelationships or at least not blocking them and their consequences.

Another aspect related to the implications of the WTO-based international trading system for the economic condition of states that shows a trend favoring developing countries rather than the most powerful state in the system or other advanced economies is that of foreign direct investment (FDI) inflows. As shown in table 3.6 below, after dropping from the 1970s to the
1980s, from the 1980s onwards the share of global FDI inflows received by developing countries increased from decade to decade.

Table 3.6: Foreign Direct Investment Inflows

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<tbody>
<tr>
<td>Developing</td>
<td>24.7%</td>
<td>22.2%</td>
<td>30.5%</td>
<td>34.6%</td>
</tr>
<tr>
<td>Developed</td>
<td>75.3%</td>
<td>77.8%</td>
<td>69.5%</td>
<td>65.4%</td>
</tr>
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</table>

(Source: UNCTADstat)

The WTO-based international trade regime is relevant for this trend both because the WTO Agreement on Trade-Related Investment Measures (TRIMS) affects the environment for direct investments and because of the institutional reassurance it provides investors when countries join the WTO. The TRIMS Agreement contributes to reducing perceived risks and correspondingly enhancing the attractiveness of countries as FDI destinations. The implications of the TRIMS Agreement are specifically addressed in chapter 5, with the analysis finding no particular reason to see the prospects for development of developing countries to be impaired by the TRIMS Agreement. The trend shown in Table 3.6 is consistent with that.

With respect to the impact of the provision of institutional reassurance, as argued by Buthe and Milner, membership in trade-related “international institutions enshrine commitments to open markets and liberal economic policies” (Buthe and Milner 2008, 745), thereby creating a much more credible commitment to internationally sanctioned economic policies than a government can provide by itself.41 Their binding force assures foreign investors that

41 Buthe and Milner analyzed 122 non-OECD countries from 1970 to 2000, finding statistical support for this argument based on how GATT, WTO and Preferential Trade Agreements (PTAs) membership affected FDI inflows to them. However, their analysis has two major limitations due to the fact that they focus on only absolute values, only for non-OECD countries, and only until 2000. First, limiting their analysis to 2000, up until when in absolute numbers FDI inflows to developing countries just increased, they abstained from facing the test posed by the early 2000s when for a few years there was a drop on FDI inflows to developing countries. Whereas their model fits reasonably well a period when there was only increase in FDI inflows to non-OECD countries, it is questionable whether it would hold its statistical strength when observations running against the intuition behind the model were included. Second, while focusing on absolute numbers for non-OECD countries they overlooked the fact that as a share of total global FDI the FDI inflows to developing countries varied both upwards and downwards from 1970 to 2000. Such fluctuation is inconsistent with their model’s underlying rationale that by joining international trade
governments in developing countries will be much less likely to change policies in ways which would negatively affect their return on their investments, therefore establishing an environment much more propitious for FDI (Staiger and Tabellini 1987; Maggi and Rodriguez-Claire 1998; Bagewell and Staiger 1999). Additionally, WTO membership may also serve as a catalyst of economic reform. Because accession to WTO membership often requires economic reforms to bring the country into conformance with WTO agreements, WTO membership prompts and locks in economic reforms as well as incentivizes their continuation, thus improving the prospects for the environment for economic activity in developing countries.

To be sure, WTO membership is just one among a number of factors contributing to the increase in the share of global FDI inflows received by developing countries. But as a contributing factor to that it impacts global economic activity in a way favorable to developing countries since the WTO’s influence on generating increased FDI inflows and a sounder and more internationalized economy is relatively much greater for developing countries than for developed ones since their relative weaknesses make those effects more relevant for the former. Conversely, developed countries benefit from the expansion of investment opportunities for their private actors. Yet the ones reaping the greatest relative benefits in terms of how WTO membership enhances the environment for economic activity are nonetheless developing countries since they are the ones which would otherwise be worse off and which accordingly have the most to gain. Indeed, the central aspect in considering the role of the WTO in terms of the competing narratives is whether despite its imperfections those states which in its absence would be most disfavored are somewhat better off with it. Only if the least powerful states in the agreements non-OECD countries improved their attractiveness to FDI since according to it their share should have increased consistently (rather than declined at times as it did) insofar as they were consistently improving their attractiveness to FDI by consistently expanding their participation in international trade agreements. Therefore, the strength of the isolated effect of membership to trade agreements to FDI inflows is overestimated in their analysis.
system are worse off with it than they would be in its absence it would be possible to say that the WTO helps perpetuating or exacerbating the relative advantages of the most powerful states in the system. As discussed in this section, that is not what the major trends indicate. Therefore, as far as general trends go the evidence challenges the narrative that the WTO serves as an instrument to consolidate the dominance of the most powerful states in the system and instead lends support to the narrative that it provides a more level playing field for international trade than it would otherwise be.
This chapter zeroes in on the WTO’s Dispute Settlement (DS) system, the realm in which the role of the WTO is most clear, and thus potentially assessable with greater precision. This precision is possible because the DS involves direct interferences from the WTO on specific aspects of the trade relations between its members. According to the WTO, its DS system “is the central pillar of the multilateral trading system, and the WTO’s unique contribution to the stability of the global economy […] because it underscores the rule of law.” This rendering of the DS system highlights its role in enforcing the replacement of power-based relationships by rule-based relationships in international trade, a role tantamount to that of the courts in a domestic legal system. The impact of this system-enforcing role is subsumed by the broad impacts of the conduction of international trade under WTO provisions, which are addressed in chapters 3 and 5. By contrast, this chapter focuses on the impact of the DS system on the relative ability of WTO members to secure their trade interests when trade conflicts arise. Changes in that ability signify changes in a state’s broader ability to protect and advance the means it possesses to effect changes in its economic condition. Those changes, therefore, are potentially conducive to changes in the international system as articulated in chapter 2, particularly with respect to how spheres I and II of Figure 4 in chapter 2, which refer to foreign and domestic

economic policy respectively, affect sphere III, which refers to economic power, and because of that might cause transformational changes in the international system, as denoted in Figure 2 of chapter 2.

There are many aspects of the DS system which refer to the ability of each WTO member to protect and advance its trade interests in relation to other WTO members. From the ability to identify instances of WTO inconsistencies and the factors affecting the decision to take a disputed issue to the DS system, to the adjudication process and the implementation of panel, Appellate body, or arbitrator rulings, the ability of WTO members to protect and advance their trade interests is contingent on several interconnected factors. Whereas scholarly analyses of the subsequent stages of the DS process are still inconclusive in their findings, in part due to distinctions in time coverage, the data assembled, methodology, and research objectives, they contribute to illuminating how the DS system has been functioning and whether it has served some countries better than others. Yet, as a review of these analyses (in Section 4.3.) shows, they have typically focused on identifying instances of uneven performance, inferring possible reasons for this from the standpoint of what the ideal situation would be – namely, a level playing field among states. By taking total evenness as the explicit or implicit benchmark against which their findings are considered, these analyses overemphasize differences in capabilities and arrive at correspondingly over-determined findings and conclusions. By instead employing as a benchmark the starting point – the reality that, in the absence of the GATT/WTO, power would rule completely unchecked – this chapter highlights whether and to what extent the DS system changes the dynamics of trade relations in relation to how they would be if totally subject to power differentials. This approach is instrumental for assessing whether and to what extent the DS system alters trade relations in ways which are potentially conducive to systemic changes. If
it does not affect the vantage point of those states with superior capabilities, the DS system does not interfere with the dictates of power asymmetries which would prevail without it, therefore having a negligible role. If, by contrast, the DS system to some extent mitigates the implications of differentials in capabilities, then it affects the international system in ways inimical to the perpetuation of the existing distribution of power, and thus of the international system of which such distribution of power is an integral part.

The next section briefly describes the DS system to set the stage for the subsequent section which introduces a theoretical framework for thinking about the DS system’s process of dispute resolution through the prism of the products it generates that are consequential to the economic condition of those involved. The following section reviews the literature on the different aspects highlighted by the framework, additionally providing analyses of the initiation and outputs of disputes, and considers how those illuminate whether and to which extent the DS system affects the relative ability of states to pursue their trade interests. The subsequent section highlights the imperative of assessing how outcomes affect a state’s economic condition in order to determine the actual impact of disputes resolved through the DS system. This section also indicates the challenges of developing meaningful measures of those impacts, and points out how the analyses developed in chapters 3, 4 and 5 help in circumventing those challenges. Finally, the last section summarizes the implications of the considerations about the DS system with respect to the scope and direction of the impact of the WTO in the process of change in the international system.
4.1. The DS system:

According to the World Trade Organization (WTO), the Dispute Settlement (DS) system established by the *Understanding on Rules and Procedures Governing the Settlement of Disputes* (DSU) integral to the *Agreement Establishing the World Trade Organization* is “vital for enforcing the rules and therefore for ensuring that trade flows smoothly.” The DS system provides the means for upholding the WTO’s multilateral agreements and making them *de facto* binding. It is unique in its condition to serve such purpose because WTO members have agreed to clear and impartial rules and procedures including the compulsory acceptance of dispute settlement rulings and of corresponding remedies when rulings are not properly observed. This ‘legalizes’ the process of dispute settlement, promoting assurance of a predictable environment for international trade as the DS system holds WTO members accountable to WTO agreements.

The ‘legalization’ of the process of dispute settlement constituted a central improvement in the multilateral trading system from the General Agreement on Tariffs and Trade (GATT) to the WTO insofar as it promoted a fundamental change from a more ‘power-oriented’ to a more ‘rules-oriented’ system (Jackson 1997; Petersmann 1997; Steger and Hainsworth 1998; Winham 1998; Kim 1999; Davey 2000). This change was brought about by critical improvements on the dispute settlement provisions that existed under GATT; these improvements created an actual serviceable system where before there was an incohesive set of rules lacking enforceability. The most defining characteristics of the WTO’s DS system are exactly that it is compounded by a consistent set of rules and procedures governing the settlement of disputes between its members, that those rules and procedures stress legalism, and that WTO members accept to be subject to them unconditionally thus making such legalism meaningful. These characteristics were lacking

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43 WTO: http://www.wto.org/english/thewto_e/whatis_e/inbrief_e/inbr03_e.htm; Accessed March 24, 2011
prior to the WTO, accordingly compromising the serviceability of the pre-WTO dispute settlement provisions for underscoring the rule of law in the multilateral trading system. For this reason there had been little incentive for using GATT dispute settlement (Busch and Reinhardt 2003). Conversely, the fact that as of March 2011 423 trade disputes had been brought to the WTO’s DS system during its 17 years of existence while only 300 were filed during the 47 years of the GATT indicates a substantial change in the willingness of GATT/WTO members to resort to dispute settlement.\textsuperscript{44} This change suggests an increase in the perceived utility of resorting to dispute settlement related to the improvements making dispute settlement under the WTO more legalistic than under the GATT. Greater legalism invests greater trust in dispute settlement under the WTO relative to GATT, therefore encouraging greater usage of it under the WTO. Alternatively the increase in disputes under the WTO could signify a deterioration of general abidance to WTO rules, but the scholarly consensus (e.g. Petersmann 1997; Steger and Hainsworth 1998) is in line with the WTO’s position that “[there] are strong grounds for arguing that the increasing number of disputes is simply the result of expanding world trade and the stricter rules negotiated in the Uruguay Round; and that the fact that more are coming to the WTO [seeking to resolve disputes they were unable to resolve through negotiation] reflects a growing faith in the system.”\textsuperscript{45}

Besides indicating greater confidence that “right perseveres over might” in the WTO’s DS system (Lacarte-Muro and Gappah 2000, 401), the increase in the number of disputes brought to the DS system also denotes respect for WTO rules. The combination of a larger membership, intensified trade-relations among members, and more comprehensive as well as more stringent rules under the WTO as compared to GATT constitutes a potent recipe for the

\textsuperscript{44} WTO disputes listed at http://www.wto.org/english/tratop_e/dispu_e/dispu_status_e.htm; Accessed March 03, 2011; GATT disputes according to Horn et.al. 1999

\textsuperscript{45} WTO: http://www.wto.org/english/thewto_e/whatis_e/tif_e/displ1_e.htm; Accessed March 03, 2011
amplification of potential conflicts under the WTO. This prospectively increases the number of conflicts which WTO members will be unable to resolve via negotiation. Growing usage of the DS system in this context thus denotes abidance by Article 23:2(a) of the DSU which proscribes, in the event of a failure to reach a mutually agreed solution, any attempt of redressing a perceived violation of WTO obligations “except through recourse to dispute settlement in accordance with the rules and procedures [of the DSU].” 46 Respect for WTO rules for resolving disputes in turn strengthens the DS system’s legalism, contributing for furthering confidence in its ability to serve “to preserve the rights and obligations of Members under the covered agreements, and to clarify the existing provisions of those agreements in accordance with customary rules of interpretation of public international law.” 47

The premise for the DS system’s role as “a central element in providing security and predictability to the multilateral trading system” 48 is highlighted in Article 3:3 of the DSU:

The prompt settlement of situations in which a Member considers that any benefits accruing to it directly or indirectly under the covered agreements are being impaired by measures taken by another Member is essential to the effective functioning of the WTO and the maintenance of a proper balance between the rights and obligations of Members. 49

The DS system protects WTO members from violations of WTO agreements by other members. In doing so it enforces compliance and accordingly protects the WTO trading system. It is charged with adjudicating disputes between WTO members, but it has no punitive mandate. As established by Article 3:7 of the DSU, its aim is to “secure a positive solution to a dispute,” 50 one which satisfies all parties in the dispute in consistence with WTO agreements. The strict

49 Ibid, p. 354
50 Ibid, p. 354
objective is to bring into conformity with WTO agreements disputed measures found to be causing the nullification or impairment of the benefits accruing to members according to WTO agreements. The core concern is with correcting instances of infringement of WTO agreements so as to enforce compliance. Members found to be at fault with WTO agreements are required to correct WTO-inconsistencies and face no punishment for the period they were at fault. Those whose benefits had been nullified or impaired receive no compensation for the adverse effects of other members’ faulty measures up to the ruling on the dispute. The focus is from the solution of the dispute onwards; the past is inconsequential. The preference order of solutions to a dispute thus specified is, in descending order according to Articles 3:7 and 22:3 of the DSU:

Before resorting to the DS system or before a ruling:
- A mutually agreed solution ending measures inconsistent with WTO agreements;

   By determination of the DS system:
- Securing the withdrawal of measures inconsistent with WTO agreements;
- Provision of temporary compensation for the endurance of measures inconsistent with WTO agreements, pending their withdrawal;
- Suspension of concessions or other obligations to the member found to be in violation of WTO agreements, first in the same sector as that from the measure in violation, second in other sectors under the same agreement, and third of other agreements.

The preferred solution of countries discussing their concerns and settling disputes by themselves in accordance with WTO agreements remains open and prevalent throughout a
If initial talks fail to generate a solution and there is a decision to resort to the DS system, WTO members enter a structured process with clearly defined stages and timelines, one of the fundamental improvements on dispute settlement under GATT (Petersmann 1997; Steger and Hainsworth 1998; Kim 1999). The preference for settlement between members is emphasized by the first mandatory step within the DS system: consultations (Article 4). At this stage WTO members are expected to attempt to reach a satisfactory solution which would avoid the legalistic pursuit of settlement through the DS system (see Figure 1). In addition to that, procedures of goods offices, conciliation and mediation (Article 5) are facilitated and encouraged throughout dispute proceedings. If consultations do not generate a satisfactory solution the complaining party can request the establishment of a panel, to which it is entitled except by a consensus against it, which is not impairing given that it requires the complainant to be against its own request. Panels are composed of experts nominated by the WTO Secretariat, and the parties in a dispute “shall not oppose nominations except for compelling reasons.” Terms of reference (Article 7), procedures (Article 12) and other aspects governing the functioning of the panel (Articles 9, 10, 11, 13, 14) are clearly specified. An interim review makes available to the parties a draft of the panel’s report and invites comments with the intention to “ensure the consideration of all relevant arguments in the final report, enhance the legal quality of the panel reasoning and […] reduce the risks of unpredictable panel findings and their quasi-automatic adoption” (Petersmann 1997, 185).

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52 Annex 2 – Understanding on Rules and Procedures Governing the Settlement of Disputes, of the Agreement Establishing the World Trade Organization, p. 359
A major distinction from the GATT dispute settlement provisions that was central for the ‘legalization’ of dispute settlement under the WTO is that likewise for the establishment of a panel, rather than being subject to be blocked by defendants, panel reports in the WTO’s DS system are automatically adopted except for a consensus against it – a ‘negative consensus’ (Petersmann 1997; Palmeter and Mavroidis 1998; Steger and Hainsworth 1998; Kim 1999; Davey 2000). Additionally, the DSU established an appellate review (Article 17) to which both defendants and complainants can resort, appealing the panel report either partially or entirely. As
the DSU determines that the “Appellate Body report shall be […] unconditionally accepted by the parties to the disputes” with the only exception also being that of a ‘negative consensus,’ the appellate review furthers the ‘legalization’ of dispute settlement under the WTO.

Determinations for a panel or the Appellate Body to make specific recommendations for measures found to be inconsistent with WTO agreements to be brought into conformity (Article 19), for the procedures for the implementation of recommendations (Article 21), and for the pursuit of temporary compensation or retaliation in cases of implementation failures (Article 22) underscore the enforcement of panel and Appellate Body rulings as well as the preponderance of legalistic methods to guard WTO members and the WTO trading system against violations. In addition to whether the implementation of the recommendations from the panel or the Appellate Body takes effect, particular attention is given to the timeliness of the implementation process. In cases of implementation failures, a complainant may seek authorization to resort to the suspension of concessions or other obligations to the defendant in order to retaliate on the level of nullification or impairment of benefits due to a measure found to be inconsistent with WTO agreements that the defendant resists to bring into conformity. If the defendant opposes the request on the grounds of level, principle, or process, the matter is referred to arbitration and the “parties shall accept the arbitrator’s decision as final.” Provisions for arbitration on both the implementation of a panel or Appellate Body rulings (Article 21:3(c)) and the suspension of concessions or other obligations in retaliation of an implementation failure (Article 22:6 and 22:7), with compulsory acceptance of the results, “reflect a further shift towards judicial methods of dispute settlement in the WTO” (Petersmann 1997, 186).

54 Annex 2 – Understanding on Rules and Procedures Governing the Settlement of Disputes, of the Agreement Establishing the World Trade Organization, p. 369
4.2. A Theoretical Framework for Assessing the Dispute Settlement System:

The theoretical framework introduced in this section for assessing the impact of the DS system on WTO members borrows heavily from the policy analysis literature, in particular from the public policy analysis literature. The underlying rationale is that, as a defined course of action of choice for achieving certain goals deemed important by its members, the WTO represents a policy pursued by each of its members around which they all converge. The DS system is accordingly understood as an integral part of a purposeful intervention carried out in consort by all WTO members with the objective of affecting the environment for international economic relations. The DS system is thus treated as an implemented policy. Since the core objective is to evaluate the impact of the DS system on states utilizing it, the policy analysis literature specifically focused on impact evaluation is particularly serviceable. This literature pertains to the field of study of public policy, which focuses on the domestic realm. The foreign policy analysis literature would seem to be more closely related to the study of the WTO, but it offers little in the area of policy impact evaluation. This is a testimony to the fact that the field of foreign policy analysis remains underdeveloped as compared to that of public policy.

A recent assessment of foreign policy as a field of study pointed out that foreign policy analysis figured only marginally in major international relations (IR) journals as contrasted to a prominent interest in the development of IR theory (Carlsnaes 2006). Another analysis posited that “there is in [foreign policy analysis] a lot less than what meets the eye and that in spite of progress we are still facing a half-empty glass” (Vertzberger 2002, 480). The “mildly optimistic sense of movement” out of a discomforting state suggested by Bernard C. Cohen and Scott A. Harris (1975) in their assessment of the study of foreign policy seems to have taken the field not
very far after a few decades. At least two main reasons seem evident enough. The first one is that whereas “foreign policy analysts today can and do agree […] that they belong squarely to the scholarly domain of International Relations (IR) rather than to any of the policy sciences” (Carlsnaes 2006, 339), foreign policy analysis has not commanded much attention because IR theory has remained central and foreign policy has been kept dissociated from it. This distinction stresses IR theory as a simplified account of the core drivers of behavior in international politics as contrasted with foreign policy as a practical development which may or may not respond properly to those drivers (Waltz 1997). It has been attributed to “a disciplinary development […] which has put a strong structuralist-systemic stamp on IR, and hence also an effective damper on approaches – such as foreign policy analysis – premised not primarily on the international system as the generator of behavior but on the importance of unit-level factors and actors for understanding and explaining state behavior” (Carlsnaes 2006, 340). However, admittedly “this structuralist-systemic perspective has never been totally hegemonic” (Carlsnaes 2006, 340), and even if it were it would hardly abstain the field of foreign policy analysis from its own qualms, and after all, blaming the orientation of the IR field would be subscribing to a ‘structuralist-systemic’ explanation unfitting the study of foreign policy.

The other apparent reason for the limited progress in the field of foreign policy analysis as compared to that of public policy is that “in spite of the closeness of areas of interest, [foreign policy analysis] and public policy have largely kept their distance from each other with few exceptions [while they] could have fruitfully cross-fertilized” (Vertzberger 2002, 486). The one at the greatest loss is the field of foreign policy analysis since the field of public policy is further developed. Clearly there are prospective gains for the study of foreign policy in terms of conceptual frameworks, methodology, and areas of inquiry. The framework for assessing the
impact of the DS system on WTO members takes advantage of that, even more so because the foreign policy analysis literature remains more geared towards the study of policy formation and implementation with still limited attention to policy results. A few decades ago the “concentration on policy process and the neglect of policy output” was identified as “one of the major deficiencies in the study of foreign policy” (Cohen and Harris 1975, 382-3). Despite some progress such imbalance proved persistent (Baldwin 1985), and a perusal of the titles of articles in major foreign policy journals as well as the topics of books about foreign policy denotes that it remains so at the time of this writing (e.g. Lake 1988; Goldstein 1993; Cohen 2000). The literature on public policy analysis in turn includes a substantial body of scholarship on policy evaluation which is apt for the development of a framework for evaluating the impact the DS system has on states in order to ultimately assess how it affects the relative condition of states.

The framework of analysis serves a heuristic purpose in that it helps to demonstrate the process through which the DS system affects the states utilizing it. Put another way, the framework indicates the process through which the impact of the DS system is generated. That is instrumental for clarifying and specifying the impact of the DS system on WTO members, which is what the framework is tasked with accomplishing. The quintessential question the framework is designed to contribute to answering is: how has the DS system changed the world? Essentially, the analysis developed in the next section intends to shed some light into how different the DS system makes the world relative to disputes taking place in its absence. That requires determining what changes take effect and how they affect participating actors. Therefore, it involves fundamentally an impact evaluation, which is the purpose the framework of analysis presented below is designed to serve.

55 Journals covered in the 2005-2010 period: Foreign Policy; Foreign Policy Analysis
Given that impact evaluation is the central concern, it is first of all necessary to specify what “impact evaluation” means. A definition of evaluation from the public policy literature is: “careful assessment of the merit, worth, and value of content, administration, output, and effects of ongoing or finished government interventions, which is intended to play a role in future, practical action situations” (Vedung 2006, 397). Evaluating a policy according to this conceptualization entails assessing all pertinent aspects of it on their ‘merit, worth, and value.’ The definition adopted for this project is narrower in that it is focused on effects; thus, evaluation is defined as the assessment of worth or value. Given the concern with the impact of the DS system on states utilizing it, impact evaluation is defined as the assessment of the worth or value of the effects of the DS system. To specify the effects to which the definition refers, it is necessary to establish the distinctions between output, outcomes, and impacts as pertaining to the DS system.

In the policy evaluation literature, policy outputs constitute “tangible and symbolic manifestations of public policy; they are observable indicators of what governments in fact do” (Nachmias 1979, 3). Another way to define outputs is as “phenomena that leave government bodies” (Vedung 2006, 397). Essentially, policy outputs are the identifiable products of the policymaking process, or in other words, the deliverables of the policymaking process. In what concerns the DS system, however, it makes no sense to consider outputs as related to a policymaking process since the DS system itself constitutes an already implemented policy; instead, outputs in the context of the DS system are defined as related to the dispute settlement process. They are tangible products of the dispute settlement process, thus constituting indicators of how the DS system is functioning. Specifically, in the analysis of the DS system, panel and Appellate Body rulings constitute the outputs of the dispute settlement process (see Figure 2).
Outputs, however, do not equate with the effect they are expected to generate, hence the need to look beyond outputs. The other core concept in the literature is that of impacts, but there is also reference to outcomes. A definition of outcomes is that they “are what happen on the addressee side” (Vedung 2006, 397), that is, on the side of those to which the policy is directed. Different from outputs, which belong to the realm of the process under consideration, outcomes pertain to what happens outside of it as a direct consequence of it. Outcomes may also be conceptualized broadly to include not simply its direct effect but also “what occurs beyond the addressees in the chain of influence” (Vedung 2006, 397), but that overlaps with the conceptualization of impact and thus compromises its analytical utility. In the framework of analysis adopted here, outcomes mean the direct effect of outputs. That is, the outcomes of the DS system are understood as being the actual consequences of panel and Appellate Body rulings about what they concern. More specifically, whereas rulings – the outputs – are about whether inconsistencies with WTO agreements are found and corresponding recommendations, what happens or fails to happen related to those recommendations is what constitutes the outcomes of the DS system. Outcomes are thus conceptualized as referring just to the immediate consequences of the implementation (or lack of implementation) of the outputs from the DS system, a conceptualization in line with recent studies (Busch and Reinhardt 2003; Bown 2004a,b; Choi 2007). They do not refer to how those consequences affect the states involved in a dispute; impacts do.
The impact of a policy is generally understood to refer to performance, “that is, the extent to which a policy output has accomplished its stipulated goals” (Nachmias 1979, 3). Impact evaluation accordingly entails the “comparison of expected and actual performance levels according to established criteria” (Brewer and deLeon 1983, 20). A performance-based conceptualization of impacts thus requires identifying policy goals and determining criteria to assess the extent to which they are attained. The objective of this project nonetheless asks for a more purist conceptualization of impacts, one that is not constituted in reference to expected effects according to specific criteria and that instead refers to the absolute value of effects. In this light, impacts are defined as the consequences of outcomes for those involved in the process that led to outcomes. In other words, impacts are what happen to the parties involved as a consequence of outcomes. Essentially, the adopted definition of impact refers to the collective of all effects caused by outcomes, with effects understood as changes in the conditions existing
prior to the interference of outcomes. Specifically regarding the DS system, impacts are thus defined as the effects of the outcomes from the dispute settlement process for the economic condition of the states involved in a dispute. This definition nonetheless still leaves an open slate for what those effects might be.

“Impact” can be a very broad term, indeed, and one that can have many aspects and dimensions. On a temporal dimension, impact can be felt immediately, or in the short run, or the long run. In terms of stages or phases, it could be primary, secondary, tertiary, and so on. Impact may be direct or indirect, latent or manifest, intended or unintended. It may be regarded in respect to its effects on individuals, groups, society, the physical environment, the structure of the political system, inputs to the system, or subsequent policy outputs of the system (Grumm 1975, 443).

Additionally, the process going from the generation of outputs, to outcomes and finally to impacts does not take place in a vacuum; it affects and is affected by a multifaceted host of variables which in turn may also be interrelated. For these reasons determining impacts in fullness and independent from other factors with precision is a formidably complex task. The project accordingly deliberately focuses on the economic dimension of impacts. In addition, the consideration of outputs and outcomes rather than limiting attention to impacts stems from taking into account that each stage in the process affects the others. It is fairly established in the public policy literature that changes affecting impacts take place throughout the process leading to them (Grumm 1975; Nachmias 1979; Brewer and deLeon 1983). The framework of analysis thus includes the entire continuum from what informs the decision to resort to the DS system to the final impact on those involved. This is consistent with the view from the public policy evaluation literature that “[i]deally, policy evaluation research should include both a process and an impact evaluation” (Nachmias 1979, 5).

The framework for assessing the impact of the DS system on WTO members highlights the concomitant complementariness of and distinction between the stages of the process, from the initiation of disputes to their outcomes and the impact of the outcomes. In the policy
evaluation literature, process evaluation refers to “the extent to which a particular policy or program is implemented according to its stated guidelines” (Nachmias 1979, 5). The underlying rationale is that a policy’s intended results depend upon its proper implementation. In considering process evaluation with the objective of assessing the DS system, the framework of analysis goes one step further.

Regarding the DS system, the main concern in evaluating process is with whether the system functions as it should. So, rather than focusing on structure – that is, on whether the DS system was properly implemented according to the DSU – the central concern instead lies with operation – that is, with whether the dispute settlement process through the DS system takes place in accordance to the DSU. Another integral aspect of process evaluation is the assessment of whether the experience with the DS system so far indicates that it is serviceable for upholding the WTO trading system. In this light, as indicated in Figure 2 the dispute settlement process is conceptualized in the framework of analysis as composed by four sequential stages. The initiation stage entails the factors affecting the initiation of disputes, from what informs the decision to initiate a dispute at the DS system, to negotiation attempts prior to resorting to the DS system, and finally to the actual initiation of a dispute. The adjudication stage includes all the procedures leading up to a panel or Appellate Body ruling, or a decision by an arbitrator. Panel, Appellate Body, and arbitrator rulings constitute the output of the adjudication process, thus representing an important measure of the performance of both the DS system and the parties in a dispute in the system. The implementation stage refers to whether rulings are being observed; it is what determines the outcomes from the DS system, which are treated separately. These four stages are considered to constitute one part of the process generating the full impact of a dispute on those involved, the part which refers to producing effects on trade volumes or trade policy.
This part is addressed next in Section 4.3. Because these outcomes do not say enough about how the parties in a dispute are actually affected by it, additional analysis must be undertaken assessing the impact of outcomes on the economic condition of those involved in a dispute. This part is addressed in Section 4.4.

4.3. From Initiation to Outcomes:

This section reviews the literature and adds analyses on the first four stages indicated in the theoretical framework introduced above, placing emphasis on whether and how the DS system changes the ability of WTO members to pursue their trade interests. It highlights how the literature has usually approached differences in the ability to use the DS system, levels of utilization of the DS system, and returns from the DS system among WTO members in terms of how far they remain from an ideal of equality rather than in terms of how far they have advanced from the condition of total subjection to the implications of power asymmetries. It also calls attention to how scholarship has been centrally concerned with the stages up to the outcomes of disputes, while neglecting to direct attention to the consequences of the outcomes of disputes to the economic condition of states involved.

The WTO’s DS system established by the Dispute Settlement Understanding (Annex 2) of the Agreement Establishing the World Trade Organization generated by the Uruguay Round is considered one of the most important achievements of the Uruguay Round and a core element of the WTO trading system. There is wide support for the understanding that “[the] crown jewel of the Uruguay Round is the Dispute Settlement Understanding” (Horlick 2002, 636). Analogously, many analysts concur with the view that the DS system established by the DSU
“has been the most successful mechanism for peacefully settling trade disputes among nations in history” (Choi 2007, 1043). However, recognizing that it represented a significant improvement on dispute settlement under GATT and thus considering it substantially better than any preceding arrangement does not equate with finding it flawless. A blossoming literature has been investigating the workings of the DS system and pointing to issues that put in question whether it is discharging its mandate effectively (e.g. Horn, Mavroidis, and Nordstrom 1999; Bown 2004a; Bown and Hoeckman 2008). Central to this literature is whether ‘legalism’ prevails and thus trumps power or whether despite its greater legalism compared to GATT the DS system is still impaired by the interference of power asymmetries. Inasmuch as the process affects the outcomes and consequently impinges on the ultimate impact of the DS system on WTO members, such concern with whether power taints the dispute settlement process is germane to determining whether or not the WTO alters the playing field in international trade and thus potentially contributes to systemic changes.

INITIATION

The literature on the initiation of trade disputes in the DS system stresses the understanding that it is not just the disputes that are initiated that matter for assessing the usage of the DS system across countries; it points out that factors affecting the will and ability of countries to bring disputes to the DS system are also important since they may constitute barriers to the access of some countries to the DS system. Non-disputes, that is, disputes that are never brought to the DS system may in fact outnumber and out-value those that reach the DS system, but those remain for the most part concealed, making them difficult to identify.

Several factors, alone or combined, affect the initiation of trade disputes in the DS system. For instance, a study of potential WTO claims not filed by Kenya, which never
participated in a DS case either as complainant or defendant, cite the lack of legal expertise, the non-institutionalization of the WTO trading system in domestic government structures, almost inexistent private sector involvement, and foreign aid and trade dependence as the reasons why Kenya did not initiate disputes it potentially could have involving fisheries and horticultural products (Ochieng and Majanja 2010, 322). Among the factors potentially contributing to preventing disputes from being brought to the DS system, financial and legal capacity limitations and asymmetries in economic leverage are central. Guzman and Simmons (2005) refer to these as “capacity constraints” and “power constraints.” The former derive from the internal conditions of WTO members, with a constellation of interconnected factors involving both the public and private sectors impinging on a country’s ability to utilize the DS system. Yet, in that they involve centrally what pertains to the domestic reality of WTO members, the thrust of capacity constraints resides outside the domain of the WTO. Likewise, since power constraints refer to instances of differential economic conditions and interdependencies across WTO members, they relate to variables over which the WTO has no control. Accordingly, whereas awareness of the deleterious effects of capacity and power constraints to the integrity of the WTO trade system ascribes a responsibility to mitigating them in the best possible way in order to help leveling the access to and utility of the DS system to WTO members, the ability of the WTO to do so is ineluctably limited because those constraints derive from instances beyond its reach and scope of action. This recognition of the nature of the constraints to the utilization of the DS system is instrumental to assessing its role in trade relations; it helps directing the focus away from whether there are differences in the ability of WTO members to successfully utilize the DS system, which is something virtually unavoidable, and into the extent to which the provisions

56 As indicated below, Kenya is engaged in addressing some of these deficiencies, taking advantage of opportunities offered by the WTO.
governing the DS system mitigate the implications of those differences, which is a much more productive avenue in terms of what matters to how the DS system changes the relative ability of WTO members to pursue actions relevant to producing changes in their economic conditions. In sum, the point is not whether the DS system fully annuls the differences between the parties in a dispute, because that is simply unfeasible, but whether and if so the extent to which it makes the playing field more level – or less uneven – than it would otherwise be.

With respect to capacity constraints, it has been pointed that the lack of expertise in both the private and public sectors in some countries impairs their ability to identify instances of WTO-inconsistencies, which thus prevent them from being able to even consider bringing to the DS system cases in which their trade partners are not compliant with WTO agreements (Abbott 2007). Though expertise is not simply a function of a country’s economic size, level of development and trade profile, it is closely related to that, which is why Busch and Reinhardt argue that “the complainant’s level of development speaks directly to its capacity for recognizing, and aggressively pursuing, legal opportunities as a complainant” (Busch and Reinhardt 2003, 732). Accordingly, economically weaker, less developed countries are disadvantaged. Yet what is relevant to assessing the role of the DS system is how different that is from the situation confronting developing countries vis-à-vis developed countries in the absence of the WTO.57 In this respect, the very opportunity the WTO’s DS system offers to resolving trade disputes through a judicial process is a major difference since it concedes a chance that developing countries would not otherwise have to defend their commercial interests. But having the opportunity to utilize the DS system is meaningless if a country is not capable of seizing it. In

57 Unless specifically noted otherwise in the text, the term ‘developing countries’ includes all countries not meeting the criteria introduced in chapter 3 for classification as a developed country. Accordingly, the least developed countries, which in certain explicitly noted instances are distinguished from other countries not meeting the criteria for classification as developed country, are generally included in the developing world.
this perspective, a country needs to first of all be able to identify cases it could potentially utilize the DS system for, which demands corresponding expertise. There is an obvious asymmetry between developing and developed countries in their command of and ability to develop further expertise necessary to identifying WTO-inconsistencies. As far as that goes, however, there is nothing different from the reality that would prevail without the WTO. What is different is that with the proper expertise to identifying WTO-inconsistencies, developing countries gain a possibility which without the WTO their economic condition would not grant, and as challenging as it may be for resource-scarce developing countries to develop such expertise, that is more cost-efficient than what they would be able to gain by pursuing relative gains in economic condition in a world without the WTO. Indeed, Evans and Schaffer point out that asymmetries in economic condition are not deterministic for the relative ability of WTO members to utilize the DS system; according to them:

…it is clear that countries with larger economies and larger trade flows are better able to access the DSU, in large part because they have the resources and market incentives to invest in deploying it. Yet as quantitative studies have supported, it is not just the size of a country’s economy or the amount of its trade that matters, but also its development of legal capacity to use it. Although these two factors (trading profiles and legal capacity) are clearly related, they do not completely overlap (Evans and Schaffer 2010, 342-3).

In addition, the prospects for developing countries to gain expertise on the WTO are aided by the WTO’s Secretariat trade-related technical assistance (TRTA) activities and programmes, whose objective is “to build long-lasting human and institutional trade capacity and to enhance ownership through training and technical cooperation … [and] is primarily geared towards government officials from developing and least-developed countries and acceding countries” 58 And recognizing the need to extend beyond governments in building capacity within developing countries, civil society, academia and the private sector are also included. The

TRTA “products” are multiple, including courses, specific assistance, immersion experiences, internships, support to trade-related teaching and research, facilitating access to information, as well as online training. For instance, through one of the TRTA “products,” the WTO Chairs Programme, academic institutions of fifteen countries selected through a competitive process – Argentina, Barbados, China, Chile, Indonesia, Jordan, Kenya, Mauritius, Mexico, Morocco, Namibia, the Russian Federation, Senegal, Singapore, and Viet Nam – currently receive support on course preparation, teaching, research and outreach activities related to trade. Developing countries may also develop trade-related expertise through other avenues, such as private sector investment, either by firms or sectoral associations with a specific trade-related interest or by law firms interested in potential opportunities, academic training in universities in the United States and Europe, research and teaching not involving TRTA products, or the actual participation in trade disputes, if not as complainants or respondents, as third parties. As expertise is developed and diffused through the combination of these various means, developing countries incrementally improve their ability to identify, and as discussed further below, successfully utilize the DS system. What this highlights, though, is that whereas the WTO makes available means to help developing countries to improve their ability to develop expertise to identify WTO-inconsistencies affecting them, thus increasing the potential they have for reducing the asymmetry between them and developed countries, realizing such potential is at any rate dependent upon the will and ability of private and public actors in developing countries to take advantage of those means in combination with other avenues.

In addition to the necessary expertise to identifying WTO-inconsistencies affecting them, another capacity constraint refers to the capacity to bear the costs of WTO litigation. By the early 2000s the cost of pursuing a dispute in the DS system was estimated to be around US$500,000 if

taken to the Appellate Body (Shahin 2010), and some disputes have been reported to exceed four times that amount (Schaffer et. al. 2010). In some cases governments pick up the entire bill, but in many cases sectoral associations have either fully or partially funded disputes of their interest. Even when the private sector contributes to funding a dispute, which for many developing countries lacking the necessary legal capacity entails hiring experienced law firms from North America or Europe, the costs of WTO litigation can be inhibiting. The vast heterogeneity in economic size and level of development among developing countries dictates distinctions in the extent to which the costs of pursuing a dispute through the DS system represents a constraint to their ability to do so, with the most impaired obviously being lower income countries. Likewise, it also affects the extent to which as defendants countries are more likely to being subject to acceding to concessions in response to the mere threat of litigation since they are pressed to avoid it (Liyu and Gao 2010). According to Busch and Reinhardt, it is at the early stages – consultations or Panel before ruling – that defendants tend to offer the greatest concessions in connection with the ability of the complainant to pose a threat of legal condemnation, which developed countries are better equipped to do given how the reforms which made the WTO’s DS system more effective than the GATT dispute settlement process “have also raised the transaction costs of settling disputes” (Busch and Reinhardt 2003). This also allows developed countries with weak cases as defendants against developing countries to pursue an strategy of entrenchment, “gambling that the extra burdens of pursuing the case will deter further action by the complainant” early on, during consultations (Busch and Reinhardt 2003, 722, citing others). Therefore, differences in the financial condition of WTO members which make for differences in

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60 Shanin 2010, p. 281, references Negotiations on the Dispute Settlement Understanding by the African Group, TN/DS/W/15 (25 September 2002). Schaffer et. al. 2010, p. 79, reference an interview with a private lawyer and a newspaper report on the US-Cotton case (DS267) initiated by Brazil in 2002 and running until 19 November 2009 when through recourse to arbitration Brazil was granted authorization to retaliate, which was conditionally deferred by Brazil based on negotiations leading to a framework conceived to facilitate reaching a mutually agreed solution.
their ability to bear the costs of litigating a trade dispute in the DS system put developing countries at a disadvantage with respect to their ability to secure their trade interests within the dynamics of dispute initiation.

Analogously to what pertains to expertise, the barrier posed by the costs of WTO litigation refers to a challenge to the utilization of a system which, in the absence of this and other challenges of such nature, would provide a more even playing field for the resolution of trade disputes. Accordingly, the key issue in assessing how different the pursuit of trade interests by WTO members is from what it would be if power capabilities reigned freely is the extent to which the WTO mitigates that challenge given what is within its reach. Article 27.2 of Understanding on Rules and Procedures Governing the Settlement of Disputes establishes that beyond assisting all WTO members at their request, the WTO’s Secretariat is responsible for providing additional legal assistance to developing countries, making available “a qualified legal expert from the WTO technical cooperation services to any developing country Member which so requests … [who] … shall assist the developing country Member in a manner ensuring the continued impartiality of the Secretariat.”\(^{61}\) Having this resource at their disposal helps developing countries overcome both expertise and financial challenges and to concomitantly build expertise through the interaction with the WTO experts assisting them. Incremental capacity-building may in fact be the most relevant ultimate contribution of such provision of legal assistance given that although it lessens the implications of capacity constraints in the immediate term, it does not eliminate them. Especially with respect to the difficulties posed by the costs of legal representation, in fact it cannot eliminate them unless full-fledged legal representation is provided at no cost; otherwise the availability of legal assistance helps

\(^{61}\) Article 27.2, of the Understanding on Rules and Procedures Governing the Settlement of Disputes, of the Agreement Establishing the World Trade Organization.
mitigating the constraint posed by the costs of litigation, but it can only help so much given that the essence of the challenge resides at the internal dynamics of each country, over which the WTO has no power or responsibility.

With exact purpose of improving their ability to cope with the costs of WTO litigation, a group of developing countries established in 2001 the Advisory Centre on WTO Law (ACWL), an independent organization with the mission “to provide developing countries and LDCs with the legal capacity necessary to enable them to take full advantage of the opportunities offered by the WTO.” Currently counting with thirty developing country members and ten developed country members, the ACWL entitles each of its developing country members to its services of support in WTO dispute settlement proceedings, which are rendered at rates in accordance to their share of world trade and per capita income; advice and training on WTO law are free. As those rates remain between one third and one half of what is charged by private law firms (Danvivathana 2010), the ACWL constitutes an instrumental asset for developing and least developed countries to overcome the human and financial constraints they face to fully benefit from the opportunities provided by the WTO. It can be deployed as the sole provider of legal services for a dispute or it might work together with governmental agencies or private law firms. For instance, Danvivathana points out that in certain disputes “the private sector in Thailand wished to engage the services of a specific law firm with which it was familiar, while the government preferred to rely heavily on the expertise of the ACWL […] in which case] the

63 The classification of developing country members according to their share of world trade and per capita income places them in three categories (A, B, and C), which determine their contribution to the ACWL’s endowment fund and the fees they pay to utilize its services. A: Chinese Taipei and Hong Kong, China; B: Bolivarian Republic of Venezuela, Colombia, Egypt, India, Indonesia, Mauritius, Oman, Pakistan, Philippines, Thailand, Turkey, Uruguay, Viet Nam; C: Bolivia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jordan, Kenya, Nicaragua, Panama, Paraguay, Peru, Sri Lanka, and Tunisia. In turn, whereas they have provided most of the funding for the establishment of the ACWL, the ten developed country members are not entitled to its services.
ACWL had to work closely with the private law firm favoured by the domestic industry” (Danvivathana 2010, 217).

The 43 least developed countries (LDCs) which are members of or are in the process of acceding to the WTO are also entitled to the ACWL’s services, without the requirements of becoming ACWL members or contributing to its endowment fund, and they pay lower rates for support in dispute settlement proceedings. To this date, though, Bangladesh remains the only least developed country to participate either as complainant or as defendant, and even as third parties least developed countries have rarely participated in disputes. For this reason the ACWL decided to provide assistance free of charge to least developed countries which reserve their right to participate in a WTO panel as third parties, a practice which an increasing number of WTO members have been pursuing given how that serves for them “to familiarize themselves with the WTO’s settlement practice and jurisprudence.” As of August 2011 the ACWL had provided support for participation as complainants in thirty two disputes, as defendants in twelve disputes, and as third parties in 7 cases, six of which involving ACWL members and one involving a LDC, Chad. Developing countries have participated as complainants, defendants and third parties in many more disputes than these, and ACWL members such as India and Thailand,

64 The maximum fees charged by the ACWL for dispute settlement support up to Appellate Body proceedings – for participation either as complainant or defendant – were, as of mid-2011: A: US$ 355,673; B: US$ 266,755; C: US$ 177,836; and LDCs: US$ 43,910. Importantly, the fees charged for support during initial consultations, a support critical to guaranteeing both access to the DS system and the proper directioning of disputes in order to secure the best way to protecting the interests of developing and least developed countries, constitute the smallest portion of those amounts, with panel proceedings and Appellate Body proceedings representing respectively the first and largest portions of those amounts. The maximum fees charged for support in consultations were, as of mid-2011: A: US$ 61,249; B: US$ 45,937; C: US$ 30,624; and LDCs: US$ 7,562. These are modest enough to make expert support to participation in the DS system accessible. Fees figures available at: http://www.acwl.ch/e/disputes/Fees.html, Accessed August 02, 2011

65 Bangladesh utilized support from the ACWL for the proceedings of its case against India (DS306). The maximum fees charged by the ACWL for support for participation as third parties in panel and Appellate Body proceedings were, as of mid-2011: A: US$ 63,338; B: US$ 47,504; C: US$ 31,669; LDCs: and US$ 7,819, which may be exempted. These fees, covering participation as third parties for the entire process after the country decides to join a dispute as a third party and amounting to the charge for support just in the phase of consultations when participating as a complainant or defendant, make capacity building through participation as third parties accessible. Fees figures available at: http://www.acwl.ch/e/ld_countries/ld_countries.html, Accessed August 02, 2011
which are two of the most active developing countries in the DS system, have utilized the ACWL services in selected cases. This highlights that whereas the ACWL contributes to mitigating capacity constraints, the deployment of its services depends upon choices contingent on the internal makeup and dynamics of those entitled to its services. Indeed, the very establishment of the ACWL is a testimony to the shared responsibility between the WTO and its members for mitigating the challenges imposed by capacity constraints, highlighting that developing and least developed countries have available means for, as well as an interest in, pursuing to build capacity to protect their interests within the WTO system.

Whereas the fact that a small number of mainly large developing countries have been successful in deploying the DS system and account for most of the disputes initiated by developing countries emphasizes the implications of (and the need to address) diversity in human and financial capital, as well as in institutional and public-private coordination capacity, it also points to the centrality of corresponding constructive developments within WTO members upon which legal and financial capacity are contingent. For instance, it has been noted that a difference between those more successful and other developing countries is private sector expertise about industry-specific WTO rules, and the willingness and ability of private actors to access, exert pressure on, and work in coordination with their governments for resolving trade issues through the WTO (Abbott 2007). For this reason it has been argued that for more developing countries to successfully utilize the DS system “they will need to continue to increase institutional capacity and co-ordination of trade policy at (all) levels ... to develop their own coordinative mechanisms to include the private sector and civil society representatives … [and] to maintain routine ongoing procedures for gathering, processing and prioritizing information ...” (Schaffer 2006). These are developments which both the WTO and independent organizations
such as the ACWL can facilitate, but that nonetheless depend critically on developments within WTO members. In this perspective, the disparities in the initiation of disputes have “more to do with the state of governance and the capacity to monitor trade trends in the exporting country than it has to do with any defect in the DSU” (Abbott 2007, 13). As pointed by Evans and Schaffer:

In general terms, the DSU has substituted a more ‘legalised’ system of dispute settlement, with new procedural requirements, over the more ‘political’ system in place under GATT. In doing so, it has created both opportunities and challenges for developing countries. On the one hand, it has helped to level the playing field between weaker and stronger WTO Members, while, on the other hand, it has raised the bar in terms of the resources (both human and financial) required to use the system effectively. The DSU can therefore directly benefit developing countries, but only if they develop the means to access and deploy it (Evans and Schaffer 2010, 342).

The WTO offers means to aid developing countries in overcoming capacity constraints, but those do not substitute for and in fact are fairly meaningless without internal developments central to that. Accordingly, differences across countries in public and private engagement in realizing the opportunities offered by the WTO explain differences in the rates of success in developing and utilizing trade expertise among developing countries. For instance, pointing out that the “catalyzing impacts of international processes are not automatic,” Schaffer et.al. argue that “[o]ne cannot understand Brazil’s response and successful use of [the WTO’s] legalized and judicialized system of trade dispute settlement without also examining domestic Brazilian factors” (Schaffer et. al. 2010, 97). They argue that Brazil’s success is explained by the combination of “a highly professionalized, merit-based Ministry of Foreign Affairs, … large companies and well-organized trade associations [that] have invested in international trade law …[a shift in] Brazil’s development policy … toward greater reliance on global markets and the private exporting sector to increase economic growth … [and] well-educated, hard-working, transnationally-networked elites” (Schaffer et.al. 2010, 97-8). Though China’s increased WTO activism derives more centrally from initiatives spearheaded by the Chinese government, which
“[a]round the time of [China’s] WTO accession … initiated comprehensive training activities to enhance the knowledge of relevant agencies and assist them in adapting to the multilateral trading system (Liyu and Gao 2010, 145), it nonetheless further emphasizes the centrality of domestic engagement in capacity building. Analogously, limited capacity has been identified as resulting from poor domestic engagement, as in the case of Egypt where “the absence of an engaged Egyptian private sector and weak public-private partnerships negatively affect Egypt’s ability to use the system” (Shahin 2010, 276). Since domestic engagement is outside the domain of the WTO, though the WTO facilitates capacity building, it does not have either control over or responsibility for what is at the heart of capacity building. As regards what is within the domain of the WTO, the fact that there exist opportunities for both capacity building and successful utilization of the DS system, as attested to by those states which have been seizing them, constitutes a reality which makes developing countries better off than they would be otherwise.

Whereas the WTO and other organizations contribute for mitigating capacity constraints, that does not rule out the possibility of power asymmetries affecting a country’s decision to initiate a trade dispute with the DS system. Power constraints thus remain an issue for dispute initiation. Countries may refrain from activating the DS system to protect privileges with economically more powerful trade partners with which they enjoy unilateral trade preferences, especially if they export relatively few products to a few large buyers, or from which they receive development aid (Horn et.al. 1999; Abbott 2007). They may also avoid raising disputes with stronger members to avoid risking retaliation through issue-linkage involving other products or industries in their export or import portfolios. Besides, smaller economies “may be discouraged from bringing complaints if their prospects of enforcing rulings in their favor are bleak because of limited retaliatory power” (Horn et.al. 1999). There are, therefore, several
reasons to find “that political pressure applied to developing countries is a major deterrent to developing countries initiating cases in many instances” (Shahin 2010). Moreover, the fact that most panel and Appellate sessions are conducted in English has also been pointed as a potential barrier to non-English-speaking members from developing countries (Abbott 2007). In light of these issues, power asymmetries do impose different constraints to different countries with respect to dispute initiation, and that affects the degree to which the DS system is actually serviceable to distinct countries.

Nonetheless, it is not the DS system which creates those asymmetries; they are an ineluctable consequence of the diversity across countries regarding what is behind the domestic aspects of the state-system continuum connecting a country to the international system. That is, they are ex ante conditions over which the WTO does not have and cannot have control and responsibility. Indeed, it is simply impossible to do away with deeply ingrained overbearing forces which underpin international relations at any given moment; these lie outside the realm of the WTO, and it would accordingly be preposterous to expect that it had control over what lies outside of its sphere of action. Thus, in fairness the DS system is not accountable for what happens before a case enters its realm – that is, before a case is reported – with respect to the effects of power asymmetries over which it has no influence. But it is responsible for those instances which pertain to the opportunity and ability to pursue litigation and to the enforceability of rulings, which are some of the factors affecting its indiscriminate serviceability insofar as they affect accessibility to and the prospective returns from the DS system. This is similar to what happens in a domestic judicial system in which plaintiffs and defendants have distinct socioeconomic conditions: even though the system might strive to mitigate the implications of that for access to the judicial system and treatment in the judicial process, it
cannot do away with the consequences of such a distinction to whether and in what condition they utilize the system. The decision of using the system remains subject to issues such as disparities in the financial ability to hire legal counsel to consider a possible case or in the very ability to devote time to a judicial pursuit, and also in the financial ability to seek pre-trial settlement. The judicial process remains subject to issues such as possible disparities in the quality of legal counsel due to what one can afford or the ability to negotiate settlements. As much as the judicial system might mitigate the implications of socioeconomic distinctions, it simply cannot completely annul issues like these that pertain to asymmetrical empowerment due to factors that lie outside its sphere of influence.

Whereas the implications of power asymmetries cannot reasonably be expected to be completely annulled, as denoted above and further indicated below, within the DS system there are mechanisms and opportunities which help mitigating the challenges posed by issues more closely related to capacity constraints. Therefore, given that power asymmetries exist prior to and regardless of the DS system, and that accordingly in the absence of the WTO countries would be subject to the full effect of power asymmetries, the fact that the DS system mitigates those effects related to the initiation of disputes which pertain to its sphere of action makes weaker countries better off than they would be otherwise in terms of their ability to challenge the trade-related policies of other countries.

A way to further assess the initiation of disputes is to consider the distribution of disputes across countries with different economic conditions. Considering the diversity of conditions and interests among WTO members, “there is no law that states that developing and developed members should be in parity in the dispute area. All depends on the perceived importance of the problem, the motivation and the circumstances” (Abbott 2007, 14). For instance, Liyu and Gao
argue that “compared to other nations, China has brought fewer complaints due to its traditional preference for settling disputes through bilateral consultation without litigation (Liyu and Gao 2010, 169). But whereas parity either between members with different economic conditions or among those with similar economic conditions is not a reasonable expectation, wide discrepancies in usage between members with distinct economic conditions can be telling of the accessibility of the DS system and thus of its serviceability to different groups of countries.

As of July 25, 2011, 425 disputes had been initiated in the DS system; when those that eclipse each other are taken into consideration, 406 disputes remain, albeit among those there remain many which refer to the same issue involving a common defendant but are pursued separately by distinct complainants.66 The United States and the European Union are the WTO members most active as both complainants and respondents; combined with a few other developed countries and a few developing countries they concentrate the vast majority of the disputes brought to the WTO’s DS system, and are also by far the most frequent respondents in disputes in the DS system (see Table 4.1 below).67

Developed countries have initiated 63.1% of disputes, and among developing countries, upper middle income countries initiated 26.1%, lower middle income 10.6%, and low income just 0.2%, which refer to a single dispute initiated by Bangladesh.68 The United States and the European Union account together for more than forty percent of all disputes initiated, with

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66 Only disputes reported as directly related, involving the same complainant and defendants and referring to the same issue, and with one eclipsing the other, were discounted. Those with same complainant and issue but different defendants were not considered to eclipse one another since the different defendants carry a distinct dynamics. Disputes data from the WTO: http://www.wto.org/english/tratop_e/dispu_e/dispu_by_country_e.htm, Accessed July 15, 2011
67 “Defendants” and “respondents” are used interchangeably throughout the text.
68 Countries classified according to the World Bank (WB) criteria for income level based on GNI per capita as measured by the World Bank Atlas method (US$), combined with the World Economic Forum classification of stages of development, as described in chapter 3. Disputes with multiple complainants were classified according to the country with the highest level of development.
Canada a distant third among the most active developed countries.\textsuperscript{69} Likewise, among developing countries a few large countries with large economies – Brazil, Mexico, India, and Argentina – concentrate most dispute initiations.

Table 4.1: Top 15 Complainants and Respondents

<table>
<thead>
<tr>
<th>Top 15 Complainants</th>
<th>Top 15 Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>US*</td>
<td>96</td>
</tr>
<tr>
<td>EU</td>
<td>84</td>
</tr>
<tr>
<td>Canada**</td>
<td>28</td>
</tr>
<tr>
<td>Brazil</td>
<td>25</td>
</tr>
<tr>
<td>Mexico</td>
<td>21</td>
</tr>
<tr>
<td>India</td>
<td>19</td>
</tr>
<tr>
<td>Argentina</td>
<td>15</td>
</tr>
<tr>
<td>Korea</td>
<td>15</td>
</tr>
<tr>
<td>Japan</td>
<td>14</td>
</tr>
<tr>
<td>Thailand</td>
<td>13</td>
</tr>
<tr>
<td>Chile</td>
<td>10</td>
</tr>
<tr>
<td>China</td>
<td>8</td>
</tr>
<tr>
<td>Guatemala</td>
<td>8</td>
</tr>
<tr>
<td>Australia</td>
<td>7</td>
</tr>
<tr>
<td>New Zealand</td>
<td>7</td>
</tr>
</tbody>
</table>

(Source: WTO)

* Adjusted to account for overlapping disputes DS172, DS173.
** Adjusted to account for overlapping disputes DS236, DS247, DS257, DS264, DS277, DS311.
*** Adjusted to account for overlapping disputes DS228, DS230.
**** Adjusted to account for overlapping disputes DS300, DS302.

The fact that developed countries initiated the larger share of disputes is unsurprising given that both their higher volumes of trade and the greater diversity in their trade portfolios increases the likelihood that trade disputes will emerge. Indeed, in line with the intensity of trade among themselves as compared with trade between them and developing countries, 64.3\% of the disputes initiated by them involve other developed countries as defendants. Among those, 53.3\% of the disputes initiated by the United States were against other developed countries, one third of them against the EU or a specific EU member. In turn, 38\% of the disputes initiated by the EU

\textsuperscript{69} All EU members which already had membership by the creation of the WTO were incorporated into the EU, with just Hungary, Czech Republic, Slovakia, and Poland (EU accession in 2004), and Romania (EU accession in 2007) counted separately as disputes either initiated by or against them occurred prior to their accession to the EU.
had the US as the respondent. This is consistent with the fact that, in the negotiations leading up to the WTO, the United States was one of the strongest supporters of the DSU due to a desire to enhance its ability to hold Europe accountable for GATT/WTO-inconsistent policies, and that Europe likewise strongly supported the DSU with an eye on the United States (Winham 1998). Both had good reasons to center their attention on each other given their mutual volume of trade and the difficulties they encountered in resolving their trade issues with each other. Such a focus, however, may have made them over-emphasize the trade profiles of the time, when developing countries played a more marginal role than now, accordingly failing to pay as much attention to prospectively changed circumstances as developing countries developed the conditions to play a greater role in international trade.

Dispute initiation is also concentrated among developing countries, with Brazil, Mexico, India, and Argentina being responsible for 54% of the disputes initiated by developing and least developed countries. All of them are disproportionally active relative to their share of global trade, not only being responsible for a share of dispute initiations greater than their share of global trade but also being more active in pursuing disputes as complainants than Japan and Korea, which account for greater shares of global trade. The number of developing countries initiating disputes remains relatively low, with only 31 countries responsible for all the 148 disputes developing countries have filed. But in recent years not only have countries which had not brought any dispute to the DS system before, such as Moldova, Ukraine, El Salvador, and Viet Nam, done so, but also, the disputes initiated by developing countries have involved developed countries as the most common respondents, most notably the United States and the European Union. Indeed, developing countries have neither been blocked nor shied away from

70 Calculated based on data from the WTO and the WB classification of countries by levels of development.
71 Calculated based on data from the WTO and the WB classification of countries by levels of development.
initiating disputes against developed countries; in fact, the majority (58.8%) of disputes initiated by developing countries has been against developed countries.\textsuperscript{72} Considering all disputes initiated by either developed or developing countries, developed countries are indeed the defendants in most of them (62.1%). Again, this is consistent with their trade profiles, but most importantly, it shows that developing countries in general have had reasonable conditions for pursuing their trade interests irrespective of the economic condition of the countries with whom trade disputes have arisen. What is more, even among the disputes initiated by lower middle and lower income developing countries, developed countries are the most frequent defendants (47.7%), followed by upper middle developing countries (38.6%).\textsuperscript{73} Additionally, from 2006 onward developed countries were complainants in 51\% of disputes (compared with 63.1\% for the entire period from 1995 to 2011), upper income developing 33\% (versus 26.1\%), and lower income developing 14\% (versus 10.6\%). Even though no country among the least developed filed a complaint in that period, the fact that there was an increase in the share of disputes which were filed by lower income developing countries, and that it happened while the share of those filed by developed countries reduced, signals greater enfranchisement of the lower tier of developing countries. All these figures about the distribution of disputes up to 2011 are consistent with an analysis of the early days of the WTO comparing the distribution of disputes with the estimated probability of the emergence of disputes as proportional to the number of products exported from one country to another, which found “no evidence that large countries target small countries disproportionately, or that small countries bring fewer complaints against large countries than expected” (Horn et. al. 1999, 2).

\textsuperscript{72} Calculated based on data from the WTO and the WB classification of countries by levels of development.

\textsuperscript{73} Calculated based on data from the WTO and the WB classification of countries by levels of development.
While in general the fact that developing countries are not being targeted by developed countries can be understood not just as attesting to the lack of a flagrant skewness in the distribution of disputes but also as granting them greater leeway with respect to abidance by WTO rules, the fact that least developed countries in particular have participated limitedly and have rarely been challenged through the DS system has been pointed to by some analysts as possibly causing them to not realize the full economic benefits of WTO membership (Bown and Hoeckman 2008). This calls attention to the constructive consequences of participation in WTO disputes as respondents, particularly for developing countries and LDCs as regards both capacity building and the benign dynamic consequences of economic liberalization. By 2011, Bangladesh continued to be the single least developed country to have ever participated in the DS system as either complainant or defendant. Moreover, lower middle income developing countries were complainants in only 10.6% of disputes initiated from 1995 to mid-2011 and respondents in only 10.1% of disputes. While recognizing that non-enforcement of some WTO rules may be welfare enhancing for developing countries, Bown and Hoeckman have argued that because their participation in the DS system is reduced, the least developed countries face weaker enforcement of WTO rules, which “reduces economic gains from WTO membership [due to] … welfare economic losses due to continued import protection…diminished incentives for the country to take on additional WTO commitments such as tariff bindings to meaningful levels …. as well as externality costs imposed on other developing countries” (Bown and Hoeckman 2008, 179).

Seen in this light, rather than having a negative victimizing connotation, being a defendant in WTO disputes brings about constructive developments for WTO members insofar as it contributes for the realization of the welfare enhancing effects of economic openness. In this perspective, developed and upper middle income developing countries have been presented with
the greatest welfare-enhancing incentives related to economic openness. To a large extent the fact that the least developed countries have rarely participated in the DS system as respondents is a product of the distinctiveness of trade profiles among WTO members, which make the number of potential disputes involving least developed countries much lower. But in addition to that, Bown and Hoeckman identify other factors that discourage countries from initiating disputes against least developed countries, such as the provisions for special and differential treatment to which least developed countries can resort, the low benefit-cost ratio given the small markets of least developed countries, and the potential political cost of being perceived as “picking on” a poor country (Bown and Hoeckman 2008, 179). Whether not having to abide by some WTO rules because that is not challenged or being forced into liberalizing their economies as a result of having trade disputes launched against them is more welfare enhancing to least developing countries is a case-specific matter. The same applies to low- and middle-income developing countries. Yet a slight increase in the participation of developing countries as respondents indicates a strengthening of the incentives related to the enforcement of WTO rules. In the more recent period since 2005 the least developed countries remain absent from participation as respondents, but developing countries have increased their participation as respondents to 37.8% in the period since 2005 from 35.1% between 1995 and 2005. Therefore, whereas the participation of developing countries as respondents remains at a level consistent with them not being targeted, it has moved in a direction which might be conducive for them to more fully realize the economic benefits of WTO membership.

74 Calculated based on data from the WTO and the WB classification of countries by levels of development.
ADJUDICATION AND OUTPUTS

The adjudication process shows a pattern similar to that verified in the initiation stage, with mixed effects from power asymmetries both within and outside the sphere of influence of the DS system and with the WTO playing a relatively positive role given what is within its reach.

As in the initiation stage, legal expertise and financial constraints are identified as limiting the ability of developing countries to successfully litigate a case once it is identified as potentially involving adverse effects to the country due to the WTO-inconsistent behavior of others (Horn et. al. 1999). For instance, greater legalization signifies greater procedural demands for longer periods, which makes it even harder for countries with more limited capabilities to keep a legal team in Geneva throughout the dispute resolution process. However, Busch and Reinhardt found evidence that differences in the outcomes of disputes between developed and developing countries up until the early 2000s favoring the former were “not a function of poor legal performance once litigation [was] under way,” but instead related to disadvantages in legal capacity manifesting themselves entirely in pre-litigation negotiations (Busch and Reinhardt 2003, 732). Increasingly the prevailing understanding is that the difficulties posed by capability constraints are becoming less prominent, a view that is even stronger with respect to the adjudication process as compared to the initiation phase, given that the space for the influence of power constraints is reduced up to the generation of outputs compared to the pre-litigation context. Along these lines, a recent analysis of developing country participation in the DS system

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75 Busch and Reinhardt define the outcomes of disputes in terms of trade policy changes, coding them according to whether substantial, partial, or no concessions were made. They operationalize legal capacity as the country’s per capita income, which follows the intuition that a higher average income relates to a greater likelihood of better legal capacity. It neglects, however, both private sector-specific expertise and involvement, which has been identified as important and which is not necessarily correlated with average income or the size of the economy, and the utility of the ACWL, which to be fair was in its initial years by the time of the analysis. Due to the limitations inherent to their operationalization of legal capacity, they also do not specify any distinction between the aspects of legal capacity within and outside the sphere of action of the WTO, nor do they isolate it from other aspects such as risks of retaliation through measures affecting bilateral trade in other ways or through the suspension or reduction of development aid. This finding must thus be considered in light of these caveats.
suggests that though significant, the cost of litigation is not prohibitive to them (Ochieng and Majana 2010). The possibility of hiring private law firms or of resorting to the ACWL enables developing countries to overcome the difficulties posed by lacking legal expertise, especially given that the ACWL offers an alternative which mitigates the financial burden of WTO litigation. Accordingly, if on one hand “extra resources and especially manpower could always make a difference to countries that have small delegations in Geneva and/or are far away from the WTO, and that have small budgets… increasingly, resource difficulties in Geneva seem less and less the problem” (Abbott 2007, 14).

One of the reasons capacity constraints have become less of a problem for some developing countries is simply because that they had to develop WTO expertise given that they became respondents in WTO disputes. That is part of the reason countries like Brazil and Argentina have developed expertise and have become active and successful in the DS system. The reason for that is that “[being] a respondent can catalyze greater involvement in trade policy by the government as a whole, as well as by the private sector and civil society generally” (Shaffer et. al. 2010, 36). For Brazil, the catalysts were the Brazil-Export Financing Programme for Aircraft case (DS46), in which Canada was the complainant, and the Brazil-Measures Affecting Patent Protection case (DS199), in which the United States was the complainant (Shaffer et. al. 2010). As regards Brazil’s largest neighbor, “Argentina’s development of using in-house lawyers is best explained not by internal foresight, but by Argentina’s need to react to external claims when it had an institutional framework which did not delineate clear responsibilities” (Gabilondo 2010, 114). Accordingly, the key catalysts for Argentina’s development of WTO expertise were the Argentina-Measures Affecting Imports of Footwear, Textiles, Apparel and Other Items case (DS56), in which the United States was the complainant,
and the *Argentina-Safeguard Measures on Imports of Footwear* case (DS121), in which the European Union was the complainant. Differences in domestic factors make for catalysts leading to distinct capacities developed, but while the dynamics within countries is central, a need to respond to a trade dispute can serve to set in motion a process of capacity building which, even if limited by internal weaknesses, is bound to confer upon the country greater capacity to utilize the DS system than it had before.

Another way most WTO members have been engaging in capacity-building is to participate in disputes as third parties. This is a proactive rather than reactive way for them to improve their ability to utilize the DS system successfully. Indeed, whereas there are 43 complainants and 39 respondents in WTO disputes, both very limited fractions of WTO membership, there are 74 participants as third parties, close to half of the WTO’s 153 members. A number of countries have participated in many more disputes as third parties than as either complainants or respondents, one of the main reasons being the development of expertise through practice. For instance, Brazil has been in 25 cases as a complainant, in 14 cases as a respondent, and in 64 cases as a third party.\(^{76}\) Since its WTO accession in 2001 China has been a complainant in 8 cases and a respondent in 22 cases, some of which are still ongoing, and it has participated as a third party in 78 cases.\(^{77}\) Such extensive participation as a third party underscores the understanding that, as it strives to develop WTO expertise “…one of the main reasons that China has participated actively as a third party in WTO cases …is to give domestic law firms an opportunity to learn the rules and practice of WTO dispute settlement through real cases” (Liyu and Gao 2010, 148). Analogously, though capacity building is not the only one, it is one of the main reasons for countries which have not participated in WTO disputes either as


complainants or as respondents to participate as third parties. Twenty eight countries have participated in WTO trade disputes only as third parties, many of which are small low income or lower middle income developing countries (see Table 4.2 below).

Table 4.2: Participation as Third Party Only

<table>
<thead>
<tr>
<th>WTO member</th>
<th>Disputes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cuba</td>
<td>13</td>
</tr>
<tr>
<td>Jamaica</td>
<td>8</td>
</tr>
<tr>
<td>Iceland</td>
<td>6</td>
</tr>
<tr>
<td>Mauritius, Saudi Arabia</td>
<td>5</td>
</tr>
<tr>
<td>Barbados, Belize, Cote d’Ivoire, Dominican Republic, Israel, Madagascar</td>
<td>4</td>
</tr>
<tr>
<td>Dominica, Fiji, Guyana, Malawi, Saint Kitts and Nevis, Santa Lucia, Tanzania</td>
<td>3</td>
</tr>
<tr>
<td>Senegal</td>
<td>2</td>
</tr>
<tr>
<td>Bahrain, Benin, Bolivia, Cameroon, Chad, Ghana, Grenada, Kuwait, Saint Vincent and the Grenadines</td>
<td>1</td>
</tr>
</tbody>
</table>

(Source: WTO)

Among these countries participating only as a third party in WTO disputes, only Chad, which as a LDC is entitled to utilizing the services of the ACWL, did utilize it.78 The other four LDCs participating solely as third parties, Madagascar (4 disputes) Malawi (3 disputes), Tanzania (3 disputes), and Benin (1 dispute), did so without resorting to the ACWL. The same is valid for four other countries which just in the last few years moved from the low income up into the low middle income tier, Cote d’Ivoire (4 disputes), Senegal (2 disputes), Cameroon (1 dispute), and Ghana (1 dispute).79 This indicates that even LDCs can overcome capacity constraints on their own and engage in dispute settlement proceedings for the interrelated purposes of overseeing their interests and building capacity. Besides, this is consistent with the pattern of utilization of the ACWL; for instance, India, the only one of the four most active developing countries as complainants which is a member of the ACWL, has utilized the services of the ACWL in two of the 19 disputes it has pursued as a complainant, in one of the 20 disputes

78 ACWL: http://www.acwl.ch/e/disputes/WTO_disputes.html, Accessed August 02, 2011
it has participated in as a respondent, and in none of the 67 disputes it has participated in as a third party. This aligns with the fact that the ACWL constitutes a resource which is made available to enhance the ability of economically weaker WTO members to utilize the DS system as they see fit rather than one which they will invariably utilize; in fact, the expectation is that its members will ‘graduate out of it.’ The pathway from participation as third parties to being able to successfully participate as complainants and respondents is expectedly longer for smaller less developed countries, but the fact that many of them are already on that track by themselves and have resources they can resort to along the way are encouraging signs.

Whereas evidence that the ability to participate in dispute settlement proceedings is gradually being evened out, with the constraints confronting economically weaker countries already sensibly mitigated, indicates that capacity constraints do not block and are increasingly less of a problem for developing countries, the outputs of the DS system both reinforce that and provide indication that power constraints have not affected the performance of WTO members with diverse economic conditions as regards the outputs of DS proceedings. As pointed out in the theoretical framework presented above (in Section 4.2.), the outputs of the adjudicating process represent the first tangible measure of how WTO members are faring relative to each other in the DS system. The fact that there are no discrepancies in the distribution of rulings signals that the DS system has been operating in line with its role as an impartial judicial body.

Determining the distribution of rulings of the DS system is not a clear-cut task since disputes vary on whether or not a resolution has been reached, in the form that a resolution is reached (e.g. mutually agreed solution, WTO panel resolution, arbitration), and in how much progress has been achieved towards a resolution. Moreover, a trade dispute often involves several issues, and a WTO panel may find some but not all issues in a dispute to be consistent or
inconsistent with WTO agreements, wherein WTO panel resolutions are rarely homogeneous. Accordingly, choices must be made in establishing criteria to assess the outputs of the DS system, and choices ineluctably implicate limitations which advise caution about the conclusions that are drawn.

Assessing the outputs of WTO trade disputes implicates determining the relative success WTO members achieve in their participations in the DS system, that is, determining success rates – meaning the percentage of favorable rulings out of the total disputes in which a member-state is involved – and comparing them across member-states. The fact that the WTO is designed to deliver fair rulings in line with its agreements rather than to produce a balanced distribution of rulings across member-states gives room for asymmetries in success rates. If the WTO is not subject to any bias, such asymmetries, if they exist, should emanate from the pertinence of issues made into WTO disputes and not from anything else. With this understanding, the criterion adopted for the analysis presented below focused on the acknowledgment of findings of inconsistencies with WTO agreements. Rulings finding the defendant faulty regarding WTO agreements and accordingly demanding corrective measures from the defendant were counted as favorable rulings to the complainant. Disputes usually involve several issues, but irrespective of the favorable/unfavorable ratio for rulings over issues, a single issue ruled in favor of the complainant was considered to suffice for a ruling to be considered favorable to the complainant. This criterion allows for cases in which all but one issue is ruled in favor of the complainant, which convey an impression of defeat to the complainant, to be counted as favorable rulings to the complainant. Yet the rationale underlying this criterion is that although the complainant did not obtain a full victory, it nonetheless obtained a partial victory, which is something in its favor.
compared to the situation before the dispute. Conversely, rulings finding the defendant at no fault at all with WTO agreements were considered favorable to the defendant.

Disputes in which a dismissal was requested by the complainant because the defendant acquiesced to the complaint were considered favorable to the complainant. Disputes in which a dismissal was requested by the complainant without any indication of whether the defendant acquiesced to the complaints or a mutually agreed solution was reached were not considered either favorable or unfavorable to the complainant. These disputes were disregarded because the reasons for the complainant’s withdrawal of the dispute were undefined. That is so because withdrawal does not automatically mean that either the complainant or the defendant conceded to the other’s demands. A complainant may drop a dispute simply because it no longer finds it worth pursuing, whereas a defendant may drop a measure that was the object of a dispute for strictly domestic reasons, without even acknowledging or engaging in talks with the complainant. Issue-linkage may also be a reason leading either complainants or defendants to give up pursuing a dispute. Thus, without clarity about the reasons that led a dispute to be dropped it is not possible to attribute success or failure to those involved. Analogously, disputes in which there has been no request for dismissal by the complainant and neither was a panel established nor a settlement notified were not considered either favorable or unfavorable rulings. Disputes in which the parties involved reached a settlement before a ruling of the WTO took place were considered favorable to the complainant since reaching a settlement implies that the complainant’s activation of the WTO process induced the defendant to the negotiation table willing to reach a settlement. This criterion implicitly assumes that for a settlement to have been reached the complainant must have extracted some level of concessions. In turn, when there was no indication of settlement, such cases were not considered either favorable or unfavorable.
rulings. Finally, disputes whose panel were established and are still engaged in completing their work were not considered either favorable or unfavorable rulings. These criteria allow assessing success rates on WTO trade disputes within reasonable grounds, but their inherent limitations implicate that only a case-by-case study would allow greater precision.

All the 390 disputes reported to the DS system until January 2009 are considered; later disputes – 35 until July 2011 – were deliberately left out since in most cases there was not enough time for the unfolding of the case. The most remarkable finding from assessing all WTO trade disputes through the abovementioned criteria was that complainants almost always ‘win’ and defendants almost always ‘lose.’ Out of the forty member-states – both developed and developing countries – involved in trade disputes as complainants during that period, all but six have success rates of one hundred percent. Among the six that did not have favorable rulings in all disputes, the Philippines exceptionally showed a 50% success ratio as a complainant, but among the other five the lowest success ratio was eighty-three percent. The Philippines is exceptional because among the five trade disputes in which it is the complainant, by the time of the analysis was conducted only two had had a clear resolution that allowed a determination of which member state received a favorable ruling.

Moreover, among either those with perfect success ratios or those with less than perfect success ratios there are both developed and developing countries. Member-states as economically diverse as Australia, Brazil, Guatemala, China, Hungary, Korea, New Zealand, Peru, and Thailand are among those with perfect success ratios as complainants, and the group of six with less than perfect success ratios is composed by the European Union (96%), Japan (91%), the United States (90%), Canada (86%), India (83%), and the Philippines (50%). These success

80 All findings reported come from applying the abovementioned criteria to data on WTO trade disputes. Available at: http://www.wto.org/english/tratop_e/dispu_e/dispu_status_e.htm; Access: July 15, 2011
ratios indicate that favorable rulings are correlated with being a complainant rather than with the economic condition of complainants on trade disputes. This is in fact unsurprising as it is rationally expectable that member-states will only initiate a trade dispute if they are confident about the validity of their claims and accordingly have reasonable expectations about receiving a favorable ruling. Indeed, member-states with limited resources such as Bangladesh, Costa Rica, and Sri Lanka typically are complainants in just one or a few disputes due to their limited involvement in international trade, but they have received favorable rulings in all of them, suggesting that they are concerned with optimizing the allocation of their limited resources.\(^{81}\) This highlights the fact that advanced developed countries such as Japan and the US are engaged in many more trade disputes than countries such as Bangladesh and Costa Rica, which exposes them to a greater probability of eventually receiving an unfavorable ruling. The same is applicable to developing countries which are particularly active in the DS system, such as India, although it should be noted that Brazil, the most active developing country, retains a perfect success ratio. This might explain less than perfect success ratios, but confidence on the validity of claims and how that affects decisions to initiate trade disputes nonetheless remain central.

That complainants overwhelmingly ‘win’ WTO trade disputes irrespective of their economic condition indicates a clear disconnect with asymmetries in economic condition and more broadly with the international distribution of power. An illustrative case is that of Antigua and Barbuda, which was involved in a single trade dispute as complainant (DS285), against the US, and it ‘won.’ The same disparity between economic condition and which country is the victorious party in a dispute is verified in many other cases. Costa Rica is the complainant in four

\(^{81}\) Bangladesh, the only LDC to initiate a WTO dispute, resorted to the ACWL; Sri Lanka, a lower middle income country, and Costa Rica, an upper middle income country, have pursued disputes as complainants without resorting to it; in fact, a few of the disputes Costa Rica entered as a complainant and the single dispute Sri Lanka filed as a complainant took place prior to the establishment of the ACWL.
trade disputes, one of which against a member-state of comparable economic condition, the Dominican Republic, and two of which against a defendant with a superior economic condition, Trinidad and Tobago, but the only one that has a clear outcome is against the United States (DS24), in which Costa Rica received a favorable ruling. Ecuador has received favorable rulings in its disputes against Turkey (DS237), the European Union (DS27), and the US (DS335). In the two trade disputes in which it was involved that have clear outcomes, Honduras received favorable rulings against the European Union (DS27) and the Dominican Republic (DS302). Nicaragua, a lower income developing country, ‘won’ the only trade dispute in which it is a complainant, against Mexico (DS284), an upper income developing country. Peru received favorable rulings in the two trade disputes it figures as a complainant against the European Union (DS12 and DS231). As a complainant, Brazil ‘won’ six trade disputes against the US (DS4, DS217, DS250, DS259, DS267, and DS382), four trade disputes against the European Union (DS69, DS219, DS266, DS269), and two against Canada (DS70, DS222). Likewise, Mexico received favorable rulings in five trade disputes against the US (DS49, DS234, DS281, DS282, and DS344) and in one trade dispute against the European Union (DS27). Outputs of WTO trade disputes are, therefore, clearly exempt from a bias towards developed countries or any particular country or grouping of countries. Instead, the clearer consistent pattern is one that indicates that complainants have almost always pursued valid claims.

Among the few trade disputes in which complainants received unfavorable rulings, some were indeed due to invalid claims, such as DS244, involving Japan as the complainant and the US as the defendant, but some were due to procedural reasons. Yet in the latter case complainants might re-file; for instance, in DS60, involving Mexico as the complainant and Guatemala as the defendant, the Appellate Body found that the dispute was not properly
presented before the panel, accordingly reversing the panel’s rulings and abstaining from any ruling. But Mexico retained the right to pursue dispute settlement proceedings, which allowed dispute DS156, in which Mexico received a favorable ruling.82

As complainants were found to almost always ‘win,’ member-states almost always received unfavorable rulings when they were defendants on trade disputes. Only seven out of forty member-states – Brazil, EU, Ireland, Japan, Korea, UK, and the US – that were defendants on a WTO trade dispute up until January 2009 did not ‘lose’ all disputes in which they are involved. In fact, these figures respect the way trade disputes are reported by the WTO, but if Ireland and the United Kingdom are grouped with the European Union, there are in fact five out of thirty-eight defendants that have not received only unfavorable rulings. Individually the United Kingdom is a perfect defendant, having ‘won’ the only dispute in which it appears by itself (DS67). The US was successful in 10% of the trade disputes in which it was a defendant. Japan and Korea were not much different, with respectively eight and nine percent success ratios as defendants. Finally, Brazil had a twenty percent success ratio as a defendant. Therefore, very few member-states had any success as defendants, and among those, rates of success as defendants were very low, sharply contrasting with the success ratios of member-states as complainants.

Yet what is most remarkable is that in most cases these low success rates that member-states had as defendants result from a single favorable ruling among those in which the member-state was the defendant. That is the case for Brazil, Japan, and Korea. Only the US and the European Union, including Ireland and the United Kingdom, had favorable rulings in more than one trade dispute in which they were the defendants. The US was involved in ninety WTO trade disputes as a defendant up until January 2009, twenty-seven of which lack a resolution that

82 In this case; DS156 was considered to eclipse DS60; thus, DS60 was excluded and only DS156 was considered.
allows classification as either favorable or unfavorable according to the criteria adopted. Among the sixty-three trade disputes that the criteria identifies as ‘wins’ or ‘losses,’ the US ‘won’ seven. These favorable rulings were in complaints filed by the European Union (DS152 and DS165), Canada (DS194 and DS221), India (DS206 and DS243), and Japan (DS244). This makes the US the member-state that has had the most favorable rulings as a defendant. Nonetheless, the US is also the WTO member with by far the largest number of participations as a defendant, and accordingly, in relative terms such favorable rulings are unimpressive compared with those of other member-states. The EU is the second largest defendant on WTO trade disputes, with a total of fifty-six trade disputes, including Ireland and the United Kingdom, in which it is involved as a defendant up until January 2009. Among those, the EU had favorable rulings in four of the thirty trade disputes that the criteria identify as either favorable or unfavorable. These were trade disputes involving the US (DS62, DS67, and DS68) and Canada (DS135). Like the US, the EU fares better than other member-states regarding the absolute number of trade disputes in which it is the defendant that it ‘won,’ but in relative terms it is not exceptional.

Such dire reality for defendants suggests that to avoid facing unfavorable rulings on WTO trade disputes member-states should avoid putting themselves in positions that grant claims of WTO inconsistencies against them. That implicates abiding by WTO agreements, thus signifying a strong incentive for compliance that suggests WTO influence over the behavior of its member-states beyond that concerning specific trade disputes in which they are involved. Indeed, such influence may transcend membership and also involve countries that have institutional standing with the WTO despite not being formal members (Goldstein et. al. 2007). But such influence depends upon the actual consequences of WTO rulings, which will be addressed next.
However, the finding that defendants on WTO trade disputes are overwhelmingly disfavored should not be understood to be as deterministic and adverse to defendants as it might appear. Unfavorable rulings are not unwarranted, and defendants can be confident that they will not be punished for invalid claims. To be fair, the heavily disfavored picture of the prospects for defendants on WTO trade disputes painted thus far derives partially from the criteria utilized in the analysis. It acknowledges that defendants were found at fault at least on one issue in their disputes, but it neglects all issues for which defendants were found at no fault within disputes. By neglecting ‘partial victories,’ the criteria suggest a much gloomier reality than it really is to defendants. Indeed, considering a single finding of inconsistency with WTO agreements on the part of the defendant enough to consider a WTO ruling on a trade dispute favorable to the complainant overstates WTO-inconsistencies and downplays all instances in which WTO-inconsistencies were lacking. Yet the rationale underlying the determination of the criteria is that although instances in which WTO-inconsistencies were found to be lacking are downplayed, those instances concern an absence of ‘defeat’ rather than an actual ‘victory’ for the defendant. Instances in which defendants are found to be at no fault with WTO agreements are instances that produce no recommendations for alterations in the behavior of member-states, therefore not affecting the pre-dispute reality. Conversely, findings of WTO-inconsistencies are what lead to recommendations for alterations in the behavior of member-states, thus affecting the behavior of defendants; for this reason the criteria adopted focuses on findings that defendants were at fault with WTO agreements. In this perspective, the criteria adopted have implications that must be kept in mind to avoid distorted understandings of the outputs of WTO trade disputes.

Finally, given the findings for complainants and defendants, the overall success ratio, including disputes both as complainants and as defendants for each member-state, vary
considerably, but the more disputes a member-state was involved in, and the more even the number of disputes as complainants and as defendants tended to be, the more the overall success ratio tended to approximate parity. Extreme overall success ratios, such as Antigua and Barbuda’s 100% or Egypt’s 0%, generally are due to a very limited number of disputes and an imbalance between disputes in which the member-state is the complainant and disputes in which the member-state is the defendant. Thus, the findings suggest that the more extensive and balanced a member-states’ involvement in WTO trade disputes, the more likely it is to have a balanced overall success ratio, thus further underscoring the prevalence of the rationale that member-states initiate trade disputes solely or almost always only when they are very confident about the validity of their claims.

Given that DS system rulings are tangible products from the DS system, this assessment provides a substantive basis for evaluating the DS system up to the rulings on trade disputes. The analysis finds no bias suggesting a deviation from proper legal process, thereby underscoring the understanding that though differences in legal and financial capacity to litigate cases in the DS system remain, they have been sensibly mitigated. Indeed, rulings do not match differences in economic condition and in the distribution of power in the international system. Yet rulings may not matter much if implementation failures make them inconsequential, for which reason assessing the implementation process is central.

IMPLEMENTATION AND OUTCOMES

Successful implementation of the rulings of the WTO’s DS system is critical for the system’s meaningfulness. If rulings are not implemented properly, the DS system loses its rule-enforcing and system-consolidating purpose. The track record of implementation of rulings is generally found to be wanting, thereby demanding serious improvements to increase its efficacy.
Yet in spite of that, as it is widely agreed that the WTO’s DS system has been exceptionally successful as mechanism for settling trade disputes (Choi 2007), there are reasons to see the process of implementation as at least bringing some improvement over a hypothetical reality in which the DS system does not exist.

Three main aspects affect the level of success in the implementation of DS system rulings. The first one is the time it takes for a defendant to bring those measures found to be WTO-inconsistent into conformity. The fact that the DS system does not have a retroactive reach, that is, that it does not punish WTO-inconsistent behavior prior to a ruling, already confers a favorable position for violators. When a ruling requiring a defendant to bring a measure into conformity with WTO agreements in order to cease the impairment or nullification of benefits to the complainant is not implemented promptly, the complainant continues to suffer impairment or nullification of its benefits for an additional period, which may in fact render the ruling meaningless by the time the defendant finally complies. In an analysis of the first ten years of the WTO, Choi identified a drop in the rate of success in the implementation of rulings from 69 to 54 percent from the first to the second five year periods, a drop identified to be related to “a large number of delayed or disputed implementation cases in which the implementation period was continuously extended or adequate compliance was disputed” (Choi 2007, 1069). Choi points to the United States as the most frequent defaulter in the implementation of WTO panel rulings, attributing this situation to its captivity to “the special-interest politics of Congress” (Choi 2007, 1069-10). From the perspective of the workings of the DS system, the fact of the matter is that the US was in a position that enabled it to fail to comply for extended periods in several cases. Whether that was actually beneficial for the United States’ economic condition, however, is disputable, given that the prevalence of special interests noted by Choi (2007) may in fact
undermine national welfare, as per Bown and Hoeckman’s (2008) argument that unsuccessful performance as a defendant impairs the realization of the welfare enhancing effects of economic openness. Yet at the same time not only complainants remain negatively affected but also the efficacy of the system is put in question.

The second main aspect affecting the implementation of rulings is the retaliatory capacity of complainants and defendants. The capacity complainants have to retaliate against defendants which resist complying with WTO rulings refers to the degree of pressure the complainant is able to exert in order to secure compliance from the defendant. It follows the same logic discussed above in reference to the initiation of disputes, being usually operationalized centrally as the share of the defendant’s exports which depends on the complainant’s market (e.g. Bown 2004a,b; Bown and Hoeckman 2008). The rationale is that the more dependent the defendant is on the complainant’s market for its exports, the greater retaliatory capacity the complainant has, and thus the greater the leverage the complainant can bring to bear over the defendant to pressure the defendant to comply, which increases the likelihood of compliance. Another measure of retaliatory capacity looks at the other side of the coin, assessing the ability of the defendant to retaliate due to the complainant’s aid dependence on the defendant (e.g. Bown 2004a; Zejan and Bartels 2006). This aspect accordingly refers to disputes involving developed countries as defendants and developing countries as complainants. Noting that limited market power debilitates a country’s ability to utilize the DS system, impinging on its participation in the dispute resolution process from initiation to implementation, Zejan and Bartels identify specifically that because aid donors “tend to penalize developing countries that seek to protect their interests in the multilateral system” (Zejan and Bartels 2006, 1043), aid affects the initiation of disputes therefore delimiting the outcomes from the DS system. Another possibility, which
applies to the initiation of disputes as well, is the threat by the defendant of filing a dispute against the complainant to reciprocate the dispute in which it was made a defendant, especially if it involves a critical sector of the complainant’s economy.

The third main aspect pertinent to the implementation of rulings refers to institutionalized retaliation, that is, to the DS system’s provisions for either monetary compensation or retaliation via trade measures. The provisions that allow the complainant to retaliate against the defendant’s non-compliance provide a means for both compensating the complainant on the level of continued impairment or nullification of its benefits caused by the defendant’s failure to comply and correspondingly discouraging non-compliance, thereby contributing to the enforcement of the system. It is limited, however, by the same issues pertaining to non-institutionalized retaliation discussed above. Smaller economies, especially if highly concentrated, can hardly afford impairments in their economic interactions, so even if granted the right to retaliate they might refrain from imposing retaliations because doing so would be costlier to them. Monetary payments offer an alternative to retaliation which may serve especially developing countries better, but they carry a systemic cost inasmuch as they work on a bilateral rather than multilateral basis and “could foster a culture of non-implementation and special-interest politics” (Choi 2007, 1070).

With respect to trying to assess outcomes, an additional aspect concerns how to operationalize the dependent variable. Definitions of the outcomes from the DS system focused on what rulings generate intend to capture the actual result of a dispute. Following Hudec (1993), Busch and Reinhardt defined outcomes as the policy result of a dispute in terms of the level of concessions extracted by the complainant, establishing three levels of concessions – none, partial, and full – which proved useful in assessing how developing countries fared compared to
developed countries from the GATT to the WTO in terms of actual results from disputes. There is in fact broad support for the extent of change in policy as the most appropriate measure of outcomes from the DS system (Bown 2004b; Choi 2007). Indeed, it aptly captures both the DS system’s concern with policy compliance with WTO agreements and the corresponding concern of complainants with having their demands for the correction of non-compliance met by defendants. Yet it does not provide a quantifiable measure of the consequences of those concessions for the trade issue in question. Alternatively, outcomes from the DS system have been defined as the growth in imports by the defendant between the year prior to the initiation of the dispute and three years after the completion of the dispute (Bown 2004a,b). Such definition involves the assumption that increased trade is correlated with concessions to the demands of complainants promoting greater market access. It is deficient in that it stresses the role of dispute rulings while downplaying the role of factors other than WTO agreements in causing changes in trade balances. For this reason it is less appropriate than the definition based on policy results. In addition, it admittedly fails to capture alternative compensations to the complainant involving sectors other than the disputed one (Bown 2004a). But on the other hand, it captures the effect of alternative measures possibly adopted by the defendant to counter the effect of a policy adjustment forced by a dispute ruling, and by quantifying outcomes it offers a (however imperfect) sense of the economic significance of a dispute that the ordinal definition based on the degree to which a complainant’s demands were met cannot provide.

Regardless of how outcomes are operationalized, in general findings indicate that asymmetries in economic condition affect outcomes, albeit results are not unequivocal. Busch and Reinhardt (2003) find that “the WTO has exaggerated [in relation to the GATT] the gap between developed and developing complainants with respect to their ability to get defendants to
liberalize disputed policies” (Busch and Reinhardt 2003, 728-9). Besides, they find that rich complainants obtain more concessions earlier, prior to a ruling, which they argue indicates that poorer countries have a lower capacity to induce early settlement and correspondingly face a greater strain from longer litigations which tend to yield lower concessions. Yet they find that per capita income has no effect on the ability of countries to secure compliance from a defendant. Accordingly, they sustain the argument that economic asymmetries play mainly an *ex ante* role. In turn, Bown (2004a,b) finds evidence that the capacity to retaliate affects the level of success of a developing country as complainant in inducing liberalization of the disputed sector by the defendant, with that taking effect at the implementation phase. Conversely, van den Broek (2003) finds that although economic power affects levels of compliance with DS reports, “there may be a number of factors other than traditional state power that play an important role in explaining compliance [and transparency, civil society, and public opinion] may, in a sense, be the weakness of the more powerful but also more transparent and open European Union and United States” (van den Broek 2003). Nonetheless, given that despite not being unequivocal most assessments of the outcomes from the DS system indicate asymmetrical outcomes consistent with asymmetrical power, at best the effect from such other factors has not set in yet.

Overall, though, the findings that asymmetries in economic condition affect outcomes confirm the obvious; what would be surprising would be to find out that they have had no effect whatsoever, since that would be inconsistent with an ineluctable fact of the international system: that there will always be differences in economic condition, and that those better endowed will usually exploit their advantage. Therefore, what matters most is not whether economic asymmetries play a role, but whether they play a role beyond or below that which they would in the absence of the WTO. The key question is thus whether the outcomes of the DS system
indicate that it exacerbates or mitigates the implications of power asymmetries. In this respect, the findings that the complainant’s retaliatory capacity affects its ability to extract concessions from the defendant are telling. The fact that they indicate that developing countries have a lower likelihood of success in getting defendants to comply with the WTO rulings indicates that power asymmetries matter, but at the same time it also signifies that as they improve their economic conditions developing countries will be improving their ability to get defendants to comply. This indicates that there is room for developing countries to improve their rate of success in getting defendants to comply, and that such improvement is contingent on their ability to improve their economic condition relative to others, which is to a large extent an internal issue which is accordingly exogenous to the WTO. What is more, Bown pointed out that “evidence suggests that developing countries are learning from their earlier failures and have changed their dispute initiation pattern so that they now initiate disputes where they have greater bilateral ‘power’ in making retaliatory trade policy threats against the defendant” (Bown 2004a, 78). Moreover, even if not as successful as developed countries in extracting concessions from defendants, developing countries are getting concessions, and that already signifies that they are better off than without the possibility of resorting to the DS system, in which case they would most likely be getting much less from developed countries.\textsuperscript{83} Therefore, though there are differences in outcomes between countries with different economic conditions, not only is that an expectable result of economic asymmetries rather than a byproduct of the WTO’s institutional design, but also there

\textsuperscript{83} It is unrealistic to consider the counterfactual of the absence of the WTO as entailing a purely zero-sum character in which the most powerful states would exploit their position and benefit in direct proportion to losses incurred by others. Save perhaps for a hypothetical condition of complete domination of one state by another, power asymmetries tend to create relationships that neither are perfectly asymmetric – with perfect symmetry meaning the most powerful gaining all benefits and the other incurring a perfectly corresponding loss – nor perfectly reflect the power gap between them. Accordingly, in the absence of the WTO, power asymmetries would tend to lead to more lopsided trade relations, but the less powerful states would still accrue a certain measure of absolute gains.
is room for improvement of the relative condition of those presently underprivileged in the implementation stage.

4.4. Assessing the Impacts of the Dispute Settlement System:

As indicated in 4.2., the outcomes of the DS system refer to how the implementation of rulings affects the trade-related policy the ruling refers to; that involves changes in trade policies and corresponding changes in related trade volumes. Yet that nonetheless falls short of determining the impact of those changes in policy and trade volumes throughout the entire economy. Based on the distinction between outcomes and impacts developed above (in section 4.2.), this section develops the argument that in order to fully assess the role of the DS system in the process of change in the international system it is imperative to assess the consequences of the outcomes of disputes for the economic condition of those involved. The fact that this aspect remains overlooked represents a limitation in the literature since without an appreciation of the impacts of the DS system across WTO members a precise measure of how the WTO affects the relative economic condition of its members, and thus of how it potentially affects the international system, remains lacking. Accordingly, this section raises this issue not simply because this aspect has been hitherto neglected but especially because that is what matters most in terms of what impact the resolution of disputes through the DS system has for relative changes in the economic condition of WTO members. The section then discusses the difficulties of what measuring the impacts of the DS system entail, and given that, considers the reach of the analyses from the previous section against such a backdrop.
To be fair, an increase in exports considered as an outcome of the DS system represents a contribution to the total sum of products produced and services provided in a country in a given period, thus constituting a contribution to the country’s gross domestic product (GDP). As a country’s GDP is a traditional measure of the size of its economy, measuring the outcomes of the DS system defined as changes in trade balances therefore signifies measuring contributions to economic growth. Especially if interpreted as an increase in income, an increase in exports can be understood to constitute a pertinent measure of the economic impact of the DS system. In this perspective, existing numerical assessments of the outcomes from the DS system do (even if implicitly) provide a measure of their economic impact. But an increase in trade is not simply an increase in production and income; it has complex repercussions throughout the economy that are difficult to disentangle from other catalysts of economic change (Singh 2010). Though those effects have not yet been completely understood and dynamically modeled, a large (and increasing) body of literature has emerged in recent decades bringing together the fields of international trade and economic growth and identifying key connections between trade and economic change (van den Berg and Lewer 2007). Appreciating the impacts of the DS system requires accounting for those connections.

Each country’s economy has a multitude of heterogeneous public and private actors which relate to each other and to external actors in many ways, so there are many channels through which international trade is connected to economic change. Price reductions resulting from reductions in firm markups due to competition from imported products represent a gain from trade for consumers (Krugman 1979; Feenstra 2010). It applies not only to finished consumer goods, but also to raw materials and intermediate goods including machinery and equipment (Grossman and Helpman 1991; Goldberg et.al. 2010). It thus affects both consumers
and producers, taking effect according to the economy’s income and substitution elasticities. It consequently also determines changes in allocative efficiency concerning the reallocation of resources across economic activities (DeRosa and Gilbert 2004). Consumers also benefit from product diversification (Broda and Weinstein 2006; Feenstra 2010), which in turn may ultimately affect preferences and consequently demand, supply and allocative efficiency. Changes in income generated by changes in export revenues as well as in domestic revenues as a consequence of changes in import flows in turn have repercussions throughout the economy that extend beyond their dollar value according to expenditure multipliers.

In addition to benefiting from cheaper inputs and capital, producers may reap gains from trade due to improvements in productivity enabled or incited by gains in economies of scale, self-selection, and technological diffusion. Concessions by a defendant in the DS system bringing a disputed measure into compliance with WTO agreements signify a reduction of impairments in the complainant’s ability to serve the defendant’s market. That enables a potential increase in exports which in turn may enable increases in scale generating reductions in average costs (Feenstra 2010). Besides, in line with their effect on prices benefitting consumers, increased imports incentivize improvements in productivity by firms serving the domestic market inasmuch as they force reductions in their markups. Increased productivity due to trade may also occur because increased competition causes firms to self-select into export markets, with only the most efficient being successful entrants (Delgado et. al 2002; Melitz 2003). Participation into export markets may in turn both bring benefits from exposure to and learning from international competition and be a source of continuous competitive incentives for the pursuit of increased productivity, though there is to date weak empirical support for this effect (Singh 2010). Moreover, trade facilitates technological diffusion, therefore facilitating
improvements in productivity (Coe and Helpman 1995; Eaton and Kortum 1996; van den Berg and Lewer 2007). Furthermore, by affecting economic activity international trade affects government revenues as well as the incentives for the allocation of governmental resources, therefore affecting the government’s capacity to provide public goods and the orientation of that provision.

These dynamic effects of trade on economic activity are increasingly deemed much more significant than those identified by analyses that focus on trade while assuming that the rest of the economy is immutable, the supporting rationale being that “there is no such thing as an isolated one-time change in a real economy [because] any change in economic activity inevitably triggers many further changes” (van den Berg and Lewer 2007, 4). Yet exactly because no economic activity is an isolated event, determining the effects of trade requires determining all dynamic interactions throughout an entire economy before one can single out those originating from trade. And establishing all dynamic interconnections between trade and the broader economy is all the more difficult because trade is just “one of the several catalysts of productivity and growth” (Singh 2010, 1555). Trade affects the economy through many channels, and “the relationship between trade and economic growth may be driven by bi-directional causality” (van den Berg and Lewer 2007, 29). Accordingly, the literature is still far from being definitive in specifying and consequently in quantifying such dynamic effects in their fullness. This keeps the debate over the effects of international trade on economic activity open (Harrison 1996; Frankel and Romer 1999; Freeman 2004; Kneller et. al. 2008; Singh 2010). But if on one hand theory still needs to advance and especially if empirical measures are still ambiguous and have not caught up with recent theoretical advancements, on the other hand
“there is no convincing statistical evidence suggesting that trade and economic growth are negatively correlated” (van den Berg and Lewer 2007, 31).

Exactly because the effects of trade on economic activity are dynamic, multifaceted, and intertwined with a number of other factors, measuring the impacts of the disputes settled through the DS system is a formidable task. Time-series and cross-sectional and panel data models generally support a positive significant relationship between trade and growth, but “the evidence is, however, not unambiguous” (Singh 2010, 1517). More importantly, such models do not establish causality and do not account for the complex network of interconnections throughout the economy. Analogously, although gravity models have been found to fit bilateral trade flow data quite well, their theoretical bases are questionable even concerning solely static effects (DeRosa and Gilbert 2004), but especially concerning dynamic effects from the repercussions of trade throughout the economy. In turn, computable general equilibrium (CGE) models utilized to investigate trade have sound theoretical bases according to which multiple interrelated aspects of an open economy are modeled. Economic activity is typically modeled through utility- and profit-maximization assumptions under which price, income, and substitution elasticities account for the scope and orientation of economic change throughout sequenced interconnections. CGE models have been found to be fairly “effective at capturing relevant direct and indirect effects of changes in trade policy” (DeRosa and Gilbert 2004, 388). But CGE models are nonetheless limited in their ability to completely capture the repercussions of an economic event throughout an economy. The limitation is greater for static CGE models, which cover a single round of impact and thus neglect successive changes between two or more time periods caused by both the policy being investigated and other factors. In this light, the Global Trade Analysis Project (GTAP) model has become a widely used CGE model in
international trade analysis, but because “it is comparative static, however, the GTAP model cannot represent all the mechanisms that link [trade liberalization] reforms to growth” (McDougall and Tyers 1997, 199). Though dynamic CGE models potentially could overcome much of such limitations, static models remain popular due to the challenges inherent to developing dynamic CGE models. Moreover, even a sophisticated dynamic model would hardly be able to accurately capture economic change in its entirety since that not only is contingent on further advances in explaining the effects of trade on economic activity but also would require the model to continuously restructure itself according to the identification and incorporation of structural changes in the domestic and global economies. Indeed, trade liberalization has an important dynamic effect on output and welfare (Baldwin 1989), but beyond that, it affects incentives, preferences, and resource allocation, and that renders it virtually impossible to fully assess the actual impacts that the resolution of trade disputes through the DS system have on the economic condition of WTO members.

In addition to that, the diverse nature of disputes dictates that there is no single common unit applicable to the outcomes of disputes, from which their impacts on the economic condition of WTO members could be consistently measured. Disputes involve different WTO agreements, which are invoked in varying degrees across disputes, and given that the agreements refer to instances of distinct natures pertaining to the economic interactions between WTO members, their outcomes are accordingly of distinct natures. For instance, DS8, DS10, and DS11, refer to taxation of imports. They were initiated respectively by the European Union, Canada, and the United States against Japan with regard to the Japanese tax system’s treatment of whisky, cognac and white spirits in relation to the treatment dispensed to the local alcoholic beverage “shochu,”
which according to the complaints was subject to much lower taxes. The cases cited articles III:1 and III:2 of the GATT which preclude differential taxation on similar domestic and imported products.\(^{85}\) The impact of the disputes thus relates to the consequences for the economic condition of the complainants and of Japan from the alcoholic beverages exported to Japan by the complainants gaining equal treatment in the Japanese market. Assessing such impact would entail first determining whether the cessation of discrimination causes any change in the volume of alcoholic beverages sold in Japan by the complainants, and if so determining the size of such change. To that end it would be necessary to control for changes in other factors affecting the supply of and demand for alcoholic beverages in Japan. With that determined, it would then be necessary to assess how such change in the amount of alcoholic beverages sold in Japan by the complainants affect the economic condition of both Japan and the complainants, an effect that is bound to be distinct for each of them due to differences in their economic makeup, and which is difficult to estimate precisely given that the repercussions of such change throughout their economies are intertwined with a multitude of factors and other dynamic effects.

Yet as complex as determining the impacts of disputes DS8, DS10, and DS11 might be, that certainly is not nearly as challenging as assessing the impacts of disputes such as those involving trade in large civil aircraft between the United States and the European Union. These include disputes DS316 and DS347 initiated by the United States and having the European Union as respondent with respect to subsidies the US alleged to be inconsistent with the Subsidies and Countervailing Measures (SCMs) and GATT agreements, as well as disputes DS317 and DS353 filed by the European Union and having the United States as respondent also

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\(^{84}\) WTO: http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds8_e.htm

\(^{85}\) WTO: http://www.wto.org/english/docs_e/legal_e/gatt47_01_e.htm#art3_2
with respect to subsidies alleged to be inconsistent with the SCMs and GATT agreements.\textsuperscript{86} In these cases what is at stake is not their bilateral trade in aircrafts, but the ability of the large aircraft manufacturers in both – Airbus in the EU and Boeing in the US – to compete globally. Rather than involving the complainant’s access to, or ability to compete in, the respondent’s domestic market, they involve the state of the playing field in the entire global market for large aircrafts. The impact of these disputes accordingly refers to the consequences for the economic conditions of the US and the EU of the correction by the respondent of the disputed measures found to be inconsistent with WTO agreements. Assessing that would entail determining how such correction affected the global sales of one aircraft manufacturer relative to the other, which would require determining whether and how it had a specific influence distinguishable from the factors affecting the orders placed with both manufacturers prior to the implementation of the DS ruling. If that can be established then the next step would be to assess how the identified effect impacted the economic condition of the US and the EU as it reverberated throughout their economies.

The distinction between the nature of disputes DS8, DS 10, DS11, and DS316, DS317, DS347, DS 353 illustrates how no single aggregate measure can possibly be appropriate to capture the outcomes of the DS system, least of all be an apt measure of their impacts. To accentuate that point, consider disputes involving agreements with even more remote linkages than the ones cited above. For instance, in DS46 “the United States claimed that the absence in Pakistan of (i) either patent protection for pharmaceutical and agricultural chemical products or a system to permit the filing of applications for patents on these products and (ii) a system to grant

\textsuperscript{86} DS316: EU and certain Member-States – Measures Affecting Trade in Large Civil Aircraft; DS347: EU and certain Member-States – Measures Affecting Trade in Large Civil Aircraft (2\textsuperscript{nd}); DS317: US-Large Aircraft; DS353 US-Large Aircraft (2\textsuperscript{nd}). WTO: http://www.wto.org/english/tratop_e/dispu_e/dispu_by_country_e.htm, Accessed August 05, 2011
exclusive marketing rights in such products, [violated] TRIPS Agreement Articles 27, 65 and 70. Whether and how the establishment of patent protection and a system to correspondingly secure exclusive marketing rights affect the commercialization of pharmaceutical and agricultural chemical products in Pakistan is a matter considerably more elusive than whether and how volumes of trade of specific products are altered due to WTO rulings. The key reason for that is that it relates not simply to immediate market competition involving products which the parties already produce, but more importantly to the future ability to competitively supply products in those fields. Another complicating factor is that those are broad fields rather than specific products, which make it more difficult to identify comprehensively the implications of DS rulings. Yet another challenge is that rather than relating to bilateral trade between complainant and respondent, some of the most relevant consequences may relate to production by businesses from the complainant in the respondent’s territory of products to supply the markets of that country and others in the region. These aspects denoting how TRIPS-related disputes are distinct from disputes involving other agreements and therefore do not lend themselves to catch-all measures of outcomes emphasize the difficulty of consistently measuring the outcomes and correspondingly the impacts of trade disputes.

An aspect which further complicates the task of measuring outcomes and impacts of disputes is that a dispute ultimately affects more than the complainant and the defendant given that what applies to both as a result of the ruling is extended to other WTO members. For instance, disputes DS2 and DS4, initiated by Venezuela and Brazil respectively, were considered jointly by a single panel which concluded that the United States’ gasoline regulation in question

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was inconsistent with Article II:4 of the GATT agreement. Accordingly, the US announced implementation of the panel’s recommendations to bring its regulation into compliance, which addressed the concerns of Venezuela and Brazil, but beyond that, it also ultimately affected other gasoline exporters in the same manner. The benefits from a favorable ruling do not accrue only to the complainants; instead, they extend to other WTO members which are engaged in the same activity. In fact, for this reason many disputes potentially preempt other disputes as measures inconsistent with WTO agreements are brought into conformance. In this perspective, the fact that most of the complaints filed by developed countries are against other developed countries in a number of cases serves developing countries which would not be as successful in securing the appropriate implementation of DS system rulings by developed countries. In these cases, developing countries free-ride on the benefits extracted by developed countries, which are likely to be greater than those they would have been able to attain by themselves. The same is valid for disputes carried out by the larger developing countries against other countries in the same sphere or against developed countries. As they succeed in these disputes, countries such as Brazil, Mexico, India, and Argentina obtain results which serve not only them, but many other developing countries which are not as equipped to pursue litigation in the DS system. Therefore, when considering the impacts of the outcomes of the DS system it is necessary to take into account how outcomes affect all WTO members and not just the ones involved in a particular dispute.

These difficulties inherent to the heterogeneity of disputes in trying to assess their outcomes and corresponding impacts demand a case-specific approach, which enables sensitiveness to the nature of each dispute and its implications for the dispute’s outcomes and

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impacts. But such an approach nonetheless still faces the difficulties related to both identifying the specific effects of DS rulings on the trade topic in question and subsequently determining how they reverberate throughout the economies of WTO members directly and not directly involved in each dispute.

In the face of such difficulties in determining the outcomes of WTO trade disputes and their impacts, assessment of the initiation, adjudication, outputs, and factors affecting the implementation of outputs of disputes are all the more relevant because although those tasks fall short of providing a specific measure of outcomes and impacts, by illuminating the ability of WTO members to defend their trade interests, those assessments speak to the relative ability of WTO members to reach favorable outcomes. For this reason the determination of impacts was treated as a subject for continuing research, with central attention being placed on what the phases of initiation and adjudication, and the outputs and the factors affecting their implementation, reveal about how the DS system affects the ability of WTO members to pursue their trade-related interests. Given that parity in dispute initiation is not a reasonable expectation since beyond trade profiles, factors affecting the motivation of WTO members for pursuing disputes in the DS system are diverse, it is not reasonable to expect an even distribution of outcomes and their impacts. What matters, therefore, is that if they are interested in pursuing a dispute through the DS system, WTO members are not impaired in doing so. Accordingly, although the actual consequences of the DS system for the relative economic condition of WTO members remain unclear as long as the impacts of disputes are not precisely determined, assessing the ability to successfully utilize the DS system when choosing to do so enables an evaluation of whether outcomes and impacts (which will inevitably be different for various reasons) are tainted by power asymmetries. This enables gaining insight into whether the DS
system contributes to system-relevant changes since, in the absence of such a rule-based judicialized system, economically more powerful countries would invariably prevail, as attested to by the problems still present in the implementation of DS rulings.

Not only does an assessment of the ability to utilize the DS system provide some sense of its impacts, general trends in international trade also contribute to shedding light on the impacts of the DS system insofar as the impacts of the DS system and their rule-enforcing effects have consequences for the patterns of trade relations that take place. In this perspective, as it subsumes the impacts of the DS system, the analysis developed in chapter 3 helps in establishing a sense (however imperfect) of the nature and scope of the impacts of the DS system. Analogously, the analysis of the impact of the WTO agreements on the prospects for the development of WTO members provided in chapter 5 also contributes to illuminating the impacts of the DS system as a state’s developmental performance under the WTO trading system is affected by the central role the DS system plays in enforcing the system.

4.5. The Relative Ability of WTO Members to Secure Their Trade Interests and Change in the International System:

This chapter addressed the role of the WTO’s DS system in contributing to changes in the international system by assessing the participation of WTO members in the DS system through the prism of their ability to secure their trade interests through the DS system as compared to how the dynamics of trade relations would be if subject to unrestrained power differentials. Benchmarking the analysis on the reality expected to prevail in the absence of the WTO rather than on an ideal reality as prevailing in the current literature proved fruitful in getting past the
over-determined aspect of the continued challenges posed by the implications of power asymmetries. It also highlighted whether the DS system alters the relative ability of states to secure their interests, and in doing so promote relative changes in their economic conditions. Whereas this approach does not establish whether the way in which the DS system alters the resolution of trade disputes has led to transformational changes in the international system (as denoted by specifications C and D in Figure 2 in Chapter 2), it did illuminate whether the prospects for changes of such nature are altered by the DS system. This is in fact instrumental because the focus on alterations in the prospects for change emphasizes the possibility of effecting changes of potentially transformational implications rather than whether the possibility was indeed realized, which is contingent also on factors beyond the domain of the WTO.

The assessment of the participation of WTO members in the DS system indicates that the DS system alters the relative ability of WTO members to secure their trade interests in a way which improves the ability of economically weaker WTO members to secure their trade interests vis-à-vis economically stronger WTO members. This does not mean that the DS system eliminates all imbalances between countries with different economic conditions or puts an end to all the challenges faced by less developed countries to secure their trade interests. Rather, it means that the DS system contributes to making economically weaker countries better able to defend and advance their interests vis-à-vis more developed economies than they would be without the DS system, even though such ability is not made perfect. Power constraints remain a problematic issue, particularly with respect to the initiation of disputes and the implementation of panel, Appellate Body or arbitrator rulings.

But the implications of power asymmetries to trade relations are not products of the WTO; instead, they pertain to instances outside the domain of the WTO, and the framework for
the resolution of trade disputes provided by the WTO’s DS system contributes to partially mitigating them. The fact that capacity constraints to the utilization of the DS system are reasonably mitigated and that there are available avenues for further overcoming them reinforces the improved and improving condition of WTO members to successfully engage in trade disputes against members which enjoy higher levels of development. Whereas this does not mean that differentials in power capabilities are completely nullified, it nevertheless signifies a less disfavored condition to WTO members, which otherwise would have a much more deficient ability to defend and advance their trade interests. Therefore, the DS system contributes to a more level (or less unabridged) playing field, thus making developing countries – and especially the least developed countries – better off than they otherwise would be, even though they remain subject to the aspects of power differentials outside the domain of the WTO.

Importantly, though, taking advantage of the opportunities available for both resolving trade disputes in more favorable terms than they could in the absence of the WTO and building better capacity to do so is incumbent on the governments of, and private actors within, WTO members. The core responsibility resides with each member-state; whether and how they will make use of the avenues for mitigating capacity constraints in the short-term as well as building capacity is contingent on the will, ability, and interest of both governments and private actors in each WTO member. For this reason the outcomes of the DS system cannot be treated as if they derive from equal motivations and equal internal commitments across WTO members to pursuing their trade interests, as this would neglect the challenges and aspirations inherent to the domestic dynamics of WTO members, over which the WTO has no command and for which the WTO has no responsibility. Simply assessing outcomes, irrespective of how they are operationalized, presumes that they are contingent just on how the system treats or serves
members with different economic conditions, overlooking the fact that there are opportunities for
WTO members to be more active and successful participants in the DS system and that the core
challenge to seizing them lies inside WTO members.

In light of these considerations, even without a precise measure of either the outcomes of
or the impacts from the DS system, the fact that through the DS system the WTO alters the
relative ability of WTO members to secure their trade interests in a way that partially mitigates
the implications of the distribution of power makes the DS system play a role which opens up the
possibility of changes in the economic condition of WTO members. This, in turn, might lead to
transformational changes in the international system that work against the most powerful states
in the system. For this reason the WTO’s DS system plays a role inconsistent with the narrative
of the WTO related to the realist view of international institutions; rather, its role is aligned with
the narrative of the WTO which relates to the neoliberal institutionalist reading of international
institutions.
This chapter addresses the implications of how WTO provisions affect economic policy for the prospects for development of WTO members. Restrictions on trade-related economic policy greatly increased from the GATT to the WTO, extending far beyond measures pertaining to market access to address distortions underpinned by domestic economic policies aimed at enhancing the competitiveness of domestic firms both as exporters and against imports into the domestic market. Those restrictions negate policy options which had been available and were used in the past, thereby altering the developmental landscape. If such alteration affects differently the prospects for development of different countries, it has implications for relative changes in economic condition, thereby potentially having systemic consequences. These implications refer to how case II in figure 2.4 of Chapter 2 plays out in the dynamics of change in the international system as depicted in Figure 2.2 of Chapter 2, particularly with respect to specifications C and D. Whether countries are differently affected, and if so which countries are favored, speak to the role the WTO plays in the dynamics of change in the international system.

The most evident issue concerning how WTO provisions affect economic policy the developmental consequences of what the WTO prohibits and what it does not prohibit. That determines the extent to which the ‘policy space’ for development is limited by the policy
options denied by the WTO.\textsuperscript{89} In this respect, what is of central concern as regards the role of the WTO in the international system – that is, how it affects the prospects for transformational changes in the international system – is whether the impact of WTO provisions on the policy space for development differs between developing and developed countries. If they work as a straitjacket for developing countries while not being as impairing for developed countries, WTO agreements potentially contribute in preserving or increasing the economic advantage of the latter, thus working in a way consistent with the narrative of the WTO aligned with the realist view of international relations. Conversely, if they do not impair the prospects for the development of developing countries, then they do not get in the way of their prospects for effecting changes in their economic condition, both in absolute terms and as relative to developed countries, thereby not clogging the engines of change in the international system, which harbor the possibility of developing countries catching up to the developed world.

This chapter first examines whether the policy options the WTO prohibits and the ones it does not prohibit affect developing countries negatively as compared to developed countries with respect to their prospects for development.\textsuperscript{90} In addition to considering the limitations the WTO imposes, this first section also considers the benefits brought by WTO membership. It ultimately points out that although the WTO takes away some options, it does not constitute a straitjacket to developing countries as regards their prospects for development. The following section explores the scope of WTO provisions within the broad developmental landscape of WTO members, highlighting how the most relevant factors pertaining to the prospects for development of WTO members lay outside the domain of the WTO. This has been overlooked by studies of the WTO’s

\textsuperscript{89} Policy space is defined as referring to the degree of autonomy a country has to deploy policies of its choosing with the objective of promoting economic development. As put by Gallagher (2008), it refers to the country’s ‘development sovereignty.’

\textsuperscript{90} As in chapter 4, unless specifically noted otherwise in the text, the term ‘developing countries’ includes all countries not meeting the criteria introduced in chapter 3 for classification as a developed country.
impact on the policy space for development of developing countries, which by focusing on what is related specifically to what the WTO prohibits, overestimate its impact on developmental prospects.

The last section considers the aspects highlighted in the preceding sections against the backdrop of the dynamics of change in the international system, pointing out their consistency with the fact that curbing the prospects for development of developing countries would compromise the economic prospects of developed countries, thus making policies aimed accordingly hardly acceptable save for exceptional circumstances in which security concerns are so high that they take precedence over any other aspect. Given its costs, a policy deliberately denying developed countries absolute gains for the sake of preventing developing countries from accruing relative gains would only make sense if security concerns were overbearing to the point of trumping concerns with absolute gains as they play out in domestic politics. Since the GATT/WTO did not develop in such a pressing security environment for its developed country members in relation to its developing country members, developed countries had no imperative incentive for placing security-related concerns with potential relative gains by developing countries before prospective absolute gains of their own. Such disconnect between security concerns and economic prospects enabled the prevalence of the latter within the GATT/WTO, which accordingly, as the previous chapters indicate, not only did not impair the prospects for development of developing countries but also did not interfere with the possibility that they would accrue relative gains in economic condition.
5.1. Economic Policy under the aegis of the WTO:

This section examines whether economic policy under the aegis of the WTO has an impairing effect on the prospects for development of developing countries as compared to developed countries. As related to the prospects for change in the international system, this involves two aspects. First, it involves whether the WTO agreements constrain the development of developing countries. This refers specifically to the possibility of development for developing countries. Second, it involves whether the WTO agreements make the prospects for economic advancement in developed countries more propitious than those for developing countries as contrasted with the counterfactual of how they would be in the absence of the WTO. This refers to the prospects for economic advancement of developing countries relative to developed countries. In this perspective, the section addresses whether what the WTO prohibits and does not prohibit affect developing countries negatively both with respect to their prospects for development and in relation to their prospects for economic advancement relative to developed countries. The section also considers the benefits to developing countries from WTO membership, that is, what they gain in exchange for concessions limiting their policy space for development, also both in absolute terms and in relation to developed countries. Additionally, it points out the problems with the underpinnings of analyses rendering the prospects for development of developing countries under the WTO trading system to be severely impaired. It concludes that the way the WTO altered the developmental landscape for developing countries neither precludes their development nor grants developed countries better prospects for economic advancement.
5.1.1. THE IMPACT OF THE WTO ON THE POLICY SPACE FOR DEVELOPMENT

This sub-section analyzes WTO agreements central to the impact of the WTO on the prospects for the development of its members. Consideration is given not only to the implications for policy space of what the agreements proscribe and do not proscribe, but also to the benefits generated by the agreements as they relate to the prospects for development of WTO members. These aspects are assessed with particular attention to their effects on developing countries as contrasted with developed countries. The analyses show how though denying some options which were efficacious for earlier developers and accordingly making the development pathways of developing countries more trying in certain aspects, the changes that the agreements promoted in the developmental landscape do not straitjacket developing countries with respect to their possibility of developing and catching up to the developed world.

GATT

With the advent of the WTO trade in goods changed broadly due to the new settings for import restrictions, including both the conversion of non-tariff measures into tariff equivalents and the binding – establishment of ceilings – of those tariffs. It also changed in specific terms related to the governance of trade-related aspects by means of the extra agreements and annexes dealing with special requirements of specific sectors or issues. Whereas the new settings for import restrictions have a general effect, which enables considering them in the aggregate, the extra agreements and annexes require individual consideration because they are specific.

The conversion of non-tariff measures into their tariff equivalents is serviceable to the governance of trade relations insofar as it establishes a common denominator. The commitments
to cut and bind tariffs in turn both reduce barriers to trade and establish a more predictable and thus more propitious environment for international trade. On the other hand, they reduce the scope to which governments can use import restrictions as policy tools, thereby reducing the policy space for development. Yet the extent to which policy space is reduced is limited by the fact that “countries typically bind their tariffs at levels significantly higher than the actual applied levels, thus leaving room to adjust tariffs in support of domestic objectives” (Shadlen 2005, 757).

Average developed countries’ tariffs nonetheless reportedly dropped 40%, from 6.3% to 3.8% on average, with the value of imported industrial products receiving duty-free treatment in developed countries increasing from 20% to 44% and the proportion of imports into developed countries facing tariffs higher than 15% dropping from 7% to 5%.91 In turn, though they also reduced their tariffs, “[many] developing countries left their bound tariffs fairly high upon entry into the WTO and entered the WTO with relatively higher average industrial tariff rates than developed countries” (Gallagher 2008, 68). As table 5.1 below shows, this distinction remains verifiable in the difference between the average effectively applied tariff rates in the US, the EU, and Japan, and those in four of the largest developing economies, Brazil, India, China, and Mexico.

<table>
<thead>
<tr>
<th>Product Category</th>
<th>US</th>
<th>EU</th>
<th>Japan</th>
<th>Brazil</th>
<th>India*</th>
<th>China</th>
<th>Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ores and metals</td>
<td>1.07</td>
<td>0.96</td>
<td>0.79</td>
<td>6.8</td>
<td>5.12</td>
<td>2.76</td>
<td>1.07</td>
</tr>
<tr>
<td>Chemical products</td>
<td>2.17</td>
<td>2.2</td>
<td>1.85</td>
<td>7.96</td>
<td>8.76</td>
<td>6.03</td>
<td>3.09</td>
</tr>
<tr>
<td>Machinery and transport equipment</td>
<td>0.98</td>
<td>0.89</td>
<td>0.04</td>
<td>12.51</td>
<td>8.44</td>
<td>6.46</td>
<td>2.86</td>
</tr>
<tr>
<td>Other manufactured goods</td>
<td>4.01</td>
<td>2.24</td>
<td>3.18</td>
<td>17.12</td>
<td>9.02</td>
<td>9.19</td>
<td>11.13</td>
</tr>
</tbody>
</table>

(Source: UNCTADstat)
*2009; data on 2010 not available

The percentage of tariff lines for trade in goods bound with the advent of the WTO went from 78% to 99% for developed countries, 73% to 98% for transition economies, and 21% to 91 WTO. Available at: http://wto.org/english/thewto_e/whatis_e/tif_e/agrm2_e.htm, Accessed Aug 10, 2011
73% for developing countries. Besides, a number of developing countries chose to bind just a low percentage of their tariffs (Martin and Ivanic 2005). Thus, in addition to keeping higher tariff ceilings, developing countries still have on average more than one fourth of their tariffs not bound, whereas developed countries have bound almost all their tariffs. With higher tariff ceilings and less tariffs bound, developing countries retain more space than developed countries have to utilize import tariffs as policy tools for pacing their competitive integration into the global economy. That their effectively applied tariffs are higher than those of developed countries indicates developing countries are taking advantage of such space. Therefore, though having agreed to constrain their space for utilizing import restraints as policy tools, developing countries have not subjected themselves to being straitjacketed in terms of their prospects for deploying a certain level of import restrictions as policy tools for development.

Beyond the compromise recognizing their different realities and allowing for different levels of tariff reductions and ceilings between developed and developing countries, countries experiencing difficulties in their processes of development may deviate from the concessions included in the GATT 1994 Agreement and its annexes. Article XVIII of the GATT 1994, addressing governmental assistance to economic development, highlights concerns with the development of WTO members and accordingly allows for measures devoted to helping them in their developmental pathways. According to Section A of Article XVIII, a WTO member may modify or withdraw from an established concession “in order to promote the establishment of a particular industry with a view to raising the general standard of living of its people.” Section B of Article XVIII determines that a country may adopt import restrictions “[in] order to safeguard its external financial position and to ensure a level of reserves adequate for the implementation

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of its programme of economic development,” provided that those restrictions do not exceed the objectives of forestalling the threat of, stopping a serious decline in, or enabling the achievement of a reasonable rate of increase in its reserves, and that they will be relaxed as conditions improve.94 In addition, Section C of Article XVIII establishes that WTO members may deploy government assistance intended to “promote the establishment of a particular industry with a view to raising the general standard of living of its people” when no measure consistent with the GATT 1994 provisions is viable to such end.95 Article XVIII prescribes specific procedures for the deployment of all these measures so as to ensure that they are not utilized in excess of what is necessary to the particular purposes they are supposed to serve, do not impose unnecessary damage to other contracting parties, do not impair regular channels of trade, and do not substitute for the domestic policies necessary for setting the country in a sound developmental path. But insofar as these procedures are observed, Article XVIII grants developing countries room to maneuver within the GATT 1994 with respect to their development projects.

In this perspective, despite the commitments to cut and bind tariffs that developing countries adopted, as put by Shadlen, “[the] upshot, in short, is that if governments in developing countries wish to use tariffs to promote local industry, most can still do so as members of the WTO” (Shadlen 2005, 757). And more generally, irrespective of levels of development, the “… establishment of the WTO took a bite out of the ability to use [measures such as high tariffs in order to sequence the integration of select industries into the world economy as early-developing industrial nations and East Asian successful developers did], but left significant room for nations to use tariffs as a means to foster industrial development” (Gallagher 2008, 68). Therefore,

though requiring some adaptation, the reduction in policy space related to tariff cuts and binding under the WTO does not straitjacket WTO members as regards their prospects for development. In particular, contrary to claims that restrictions on tariff sequencing to facilitate competitive integration into the global economy impair the prospects for development of developing countries (Chang 2002; Wade 2003), developing countries retain room to maneuver under the WTO with respect to the utilization of tariffs as developmental policy tools.

What is more, whereas the literature on the implications of WTO agreements for policy space has typically focused on the extent to which policy space is lost, the agreements also generate benefits as “the losses were exchanged as part of a grand bargain where developing countries gained access to developed country markets” (Gallagher 2008, 67). In exchange for concessions involving the establishment of the *Agreement on Trade-Related Investment Measures*, the *General Agreement on Trade in Services*, and the *Agreement on Trade-Related Aspects of Intellectual Property Rights*, developing countries received concessions on highly important areas to them, specially agriculture, through the *Agreement on Agriculture*, which remains active, and textiles and clothing, through the *Agreement on Textiles and Clothing*, which served a transitional purpose until January 1, 2005, when trade in textiles and clothing became governed by the general rules of the WTO trading system.

The *Agreement on Agriculture* limited restrictions to agricultural imports, domestic support to the agricultural sector, and export subsidies and other like measures. Though limiting rather than disallowing them, the commitments were important to increasing developing country access to the large markets for agricultural products in developed countries, which were (and remain to the extent that they can) very protective of their agricultural sectors. Indeed, developed countries agreed to commitments to higher relative reductions in their tariffs (36% committed
average reduction as compared to 24% for developing countries), domestic support (20% versus 13% committed reduction), and export subsidies (21% versus 14% committed reduction), and the least developed countries are exempted from any commitment to reducing support to their agricultural sector.\textsuperscript{96} While they also had to reduce support to their agricultural sectors, developing countries benefited from greater reductions in the developed world, an important gain for the competitiveness of their agricultural products which otherwise they would not have had. Though not dramatically, developing country exports of primary commodities, excluding fuels, to developed countries did increase as a share of global exports of primary commodities to developed countries, going from 27.5\% in 1995 to 31.5\% in 2010.\textsuperscript{97} Indeed, the average shares of developing country exports of primary commodities, excluding fuels, to developed countries in subsequent periods since 1995 denote a consistent trend of increase: 1995-1999 (27.8\%), 2000-2005 (28.2\%), and 2006-2010 (30.5\%).\textsuperscript{98} Developing country global exports of primary commodities, excluding fuels, as a share of global exports of primary commodities increased even more markedly: 1995-1999 (34.5\%), 2000-2005 (36.3\%), and 2006-2010 (41\%).\textsuperscript{99} This indicates not only that developing countries have gained market relative to developed countries as regards exports of primary commodities to the developed world, but also that developing countries have been more competitive in meeting the novel demands for primary commodities coming from high growth developing countries. Moreover, as of July 2011, 66 disputes involving the \textit{Agreement on Agriculture} had been brought to the DS system (15.5\% of all disputes), and developed countries were the respondents in 62\% of them (41 of 66).\textsuperscript{100}

\textsuperscript{96} WTO: Available at: http://wto.org/english/thewto_e/whatis_e/tif_e/agrm3_e.htm; Accessed: August 15, 2011
\textsuperscript{97} Data from UNCTADstat. Available at: http://unctadstat.unctad.org
\textsuperscript{98} Calculated from data from UNCTADstat.
\textsuperscript{99} Calculated from data from UNCTADstat.
\textsuperscript{100} WTO: Available at: http://www.wto.org/english/tratop_e/dispu_e/dispu_agreements_index_e.htm?id=A1#selected_agreement; Accessed: July 25, 2011
practically matches the percentage of all disputes filed until July 2011 in which developed countries are the respondents, indicating consistency with the pattern identified in chapter 4 signaling pressure for compliance with WTO agreements on developed countries in the aggregate roughly commensurate with their share of global trade.

Overall, while under the aegis of the WTO developing countries are not as unrestrained in their ability to use import restrictions as developed countries were while developing, they also face a much less protectionist, and thus much more accessible and predictable, international trade environment for their exports than those countries did. That brings benefits beyond those specifically related to market access and aspects directly affecting competitiveness; the stability and predictability brought by tariff bindings and the commitments to reductions in tariffs and incentives allows a level of reliability in foresight exercises which was unattainable before, the benefits of which are valuable for governments, producers, and investors from developed and developing countries alike. Yet given that developing countries would be the ones which otherwise would be worse off in terms of their ability to either deploy measures on their own behalf or counteract measures deployed by others, they are the ones whose condition is most improved by the structuring of international trade relations through the WTO trading system.

In turn, the extra agreements and annexes to GATT 1994 set special requirements of specific sectors or issues, all of which are consequential for the developmental landscape confronting WTO members, yet a few more directly so than others. The Agreement on Trade-Related Investment Measures (hereinafter called TRIMs Agreement) is one of the more clearly development-related extra agreements governing trade in goods which went into effect when the WTO was created. As established by Article 2 of the agreement, it proscribes trade-related investment measures (hereinafter referred to as TRIMs) inconsistent with the provisions of
Article III or Article XI of GATT 1994. The main TRIMs listed as inconsistent with the provisions of Article III or Article XI of GATT 1994 are those involving local content, trade balancing, or foreign exchange balancing requirements.\textsuperscript{101} These measures were used by developed countries, including the so-called newly industrialized Asian countries, as part of their development strategies (Chang 2002; Kumar 2005; Shadlen 2005). The fact that they are no longer available makes the developmental landscape for developing countries today more restrictive than that which developed countries faced while developing.

Yet Article 5 of the TRIMs Agreement granted developing countries the possibility of requesting the extension of the transition period established for elimination of TRIMs inconsistent with the provisions of Article III or Article XI of GATT 1994, which was of 2 years for developed countries, 5 years for developing countries, and of 7 years for the least developed countries. Developing and least developed countries thus received more time than developed countries to adapt to the TRIMs Agreement, and were given the opportunity to further extend the transition period. Additionally, in line with Article XVIII of the GATT 1994, Article 3 of the TRIMs Agreement establishes that developing countries are “free to deviate temporarily from the provisions of article 2.”\textsuperscript{102} The possible deviations refer to critical balance-of-payments situations or ‘essential products’ for meeting “basic consumption needs or [contributing] to the Member’s effort to improve its balance-of-payments situation, such as capital goods or inputs needed for production.”\textsuperscript{103} Accordingly, the TRIMs Agreement gives developing countries room to accommodate critical challenges that they might identify in relation to its application, thereby making what it proscribes less negatively consequential.

\textsuperscript{101} Agreement Establishing the World Trade Organization, Annex 1A – TRIMS, p. 143
\textsuperscript{102} Agreement Establishing the World Trade Organization, Annex 1A – TRIMS, p. 140
\textsuperscript{103} Agreement Establishing the World Trade Organization, Annex 1A – Balance of Payments Provisions, p. 30
But most importantly, the TRIMs Agreement does not proscribe a host of measures that countries have successfully employed as part of their development strategies. It leaves room for technology transfer, local research and development (R&D), and minimum shares of local ownership requirements, which were employed by newly industrialized Asian countries as well as more recently by China (Kumar and Correa 2004; Shadlen 2005; Gallagher 2008). It also enables the negotiation of requirements that a foreign investor interested in producing at a certain country produce or not produce a certain product, that on a temporary basis it sell part of its production overseas, or that key sectors are excluded from the provisions of the TRIMs Agreement on the grounds of national security (Weiss 2005). Moreover, the TRIMs Agreement leaves at the discretion of WTO members the determination of “what is and what is not a 'trade-related investment measure', which … investment measures are WTO compatible or not, and thus what they are obligated to report to the WTO (Shadlen 2005, citing UNDP, 2003).

Given the room it provides for coping with the implications of what it proscribes, and especially the range of policies it keeps available, the TRIMs Agreement “leaves a significant amount of policy space for developing countries” (Gallagher 2008, 71). Although the TRIMs Agreement has established a “more restrictive international regime on investment, developing countries can continue to use standard and time-honored investment regulations as instruments of industrial promotion” (Shadlen 2005, 760). Therefore, in what regards trade-related investment measures the possibility of development for developing countries is not impaired by the WTO. Nor does the TRIMs Agreement put developing countries at a disadvantage in terms of their prospects for economic advancement relative to developed countries. Indeed, the fact that before the TRIMs Agreement developing countries could have used the measures it proscribes more
extensively and more efficiently than they did indicates that the scope of a country’s policy space is not as important as its ability to make good use of the policy space it has.

One of the main benefits of the TRIMS Agreement is in fact to establish an institutional framework for investment which provides a level of assurance to investors which most developing countries would not provide otherwise due to how political instability makes for a frail economic environment. The commitment to the TRIMS Agreement as an integral part of the WTO trading system conveys a commitment to an investor-friendly environment for economic activity, the credibility of which cannot be matched by an individual government (Buthe and Milner 2008). That includes both the fact that the broad regulatory framework for investments is known and stable and the fact that such framework proscribes certain practices inauspicious to the attractiveness of countries as investment destinations. For instance, by proscribing performance requirements, the existence of which usually makes investors more reluctant due to the rigidity they force on their operations, the TRIMS Agreement contributes to making developing countries more attractive to foreign investors. Another benefit is that international competition for government procurement can stimulate local businesses to improve their competitiveness, contribute to doing away with paternalistic relations, and give opportunity to local businesses to gain procurement contracts with other governments. Yet another, broader and prospectively more consequential benefit from the TRIMS Agreement, is that it may in fact help orienting the design and implementation of more efficient investment measures, thereby contributing for more efficient strategic activism towards development. These benefits accrue to all WTO members, but likewise what applies to the GATT, developing countries have the
greatest prospective benefits because they are starting off in more vulnerable – or less privileged – positions.\textsuperscript{104}

The \textit{Agreement on Subsidies and Countervailing Measures} (ASCM) limits the use of subsidies, a policy tool widely used by developed and developing countries alike before the ASCM disciplined its usage. The ASCM prohibits subsidies contingent on export performance and domestic content in the form of direct or indirect transfers of funds or liabilities, forgone government revenue, government provision of goods or services, government purchases, or income or price support.\textsuperscript{105} In addition, the ASCM divided subsidies in prohibited, actionable, and non-actionable, and added to the subsidies which can be challenged those which it defined as actionable subsidies, which are subsidies not necessarily prohibited but which may be challenged if they cause injury to the domestic industry of another WTO member, nullification or impairment of WTO benefits, or serious prejudice to the interests of another WTO member.\textsuperscript{106}

By limiting the ability of governments to use subsidies to enhance the conditions of enterprises to compete against global competitors, the ASCM thus limits the policy space for development of WTO members, an implication which may be understood to be more consequential for developing countries since many enterprises within their economies are still less competitive than those in developed countries.

Subsidies nonetheless continue to be amply employed as circumscribed by the ASCM. Indeed, the ASCM leaves considerable room for the use of subsidies. To begin with, subsidies to sectors suffering serious injury from foreign competition may be extraordinarily allowed as “one-time measures which are non-recurrent and cannot be repeated for that enterprise and

\textsuperscript{104} To be clear, this does not mean that the TRIMS Agreement is a panacea for what impairs the attractiveness of developing countries to investment; these are instances in which the TRIMS Agreement contributes to increasing the attractiveness of its members to investment, but their domestic political economy continues to be central for that.

\textsuperscript{105} Agreement Establishing the World Trade Organization, Annex 1A – Subsidies and Countervailing Measures

\textsuperscript{106} Agreement Establishing the World Trade Organization, Annex 1A – Subsidies and Countervailing Measures
which are given merely to provide time for the development of long-term solutions and to avoid acute social problems.”107 But most importantly, though the failure to reach an agreement upon their review in 2000 made formerly non-actionable subsidies, that is permissible subsidies, into permissible yet potentially actionable subsidies, those remain widely available since the related burden of proof became more difficult (Weiss 2005). These permissible yet potentially actionable subsidies include assistance for research and development, assistance to disadvantaged regions, and assistance to promote the adaptation of facilities to new environmental requirements.108 This gives WTO members a number of opportunities to provide support for the development of capacities and the corresponding improvement in the competitiveness of their domestic enterprises (Amsden and Hikino 2000; Shadlen 2005; Weiss 2005). These include initiatives such as the financing of venture capital funds, funding technology and product development both in research facilities and the private sector, the provision of state-developed technologies and innovations to the private sector, public-private joint-ventures devoted to technology development, the provision of market intelligence, the sponsorship of trade missions, and the establishment of export processing zones (Weiss 2005). Governments may also reimburse firms for taxes paid on imports incorporated in products which will be exported or subsidize human capital formation (Shadlen 2005).

What is more, governments may engage in a host of other ‘pre-competitive’ activities serving to help domestic enterprises become competitive (Weiss 2005; Gallagher 2008). If employed only until firms acquire the ability to compete with foreign firms, at which point the government removes its support in order to avoid inconsistency with the ASCM, subsidies may be used extensively. Insofar as they remain ‘pre-competitive,’ that is, as long as the industry is

107 Agreement Establishing the World Trade Organization, Annex 1A – Subsidies and Countervailing Measures, p. 233
108 Agreement Establishing the World Trade Organization, Annex 1A – Subsidies and Countervailing Measures
not export-oriented and does not face import competition of relevance (or at least not yet in either case), subsidies thus remain a readily available policy option. Accordingly, insofar as keeping a ‘pre-competitive’ character, practices such as subsidizing the process of shifting to new products or technologies, which may involve subsidy repayment when profits are generated, are compatible with the ASCM (Weiss 2005). Therefore, though limiting the scope of usage of subsidies, the ASCM leaves an extensive array of opportunities for their utilization in the development projects of WTO members.

Furthermore, according to Article 27 of the ASCM, in recognition of the important role that subsidies may play in the economic development programmes of developing countries, least-developed countries and, while their GNP per capita remains under $1000 per annum, an additional group of low income countries, are exempted from the prohibition on subsidies contingent on export performance.109,110 Other developing countries were exempted for the first eight years after the establishment of the WTO, thus having reasonable time to phase out subsidies they had been using at the time and adopt alternative measures. Likewise, developing countries were exempted from the prohibition on subsidies contingent on domestic content for the first five years after the establishment of the WTO, with the least developed countries gaining three additional years.111 Upon request, these exemptions could have been extended on a yearly basis if the necessity of maintaining them was demonstrated. These provisions gave, and particularly in the case of the least developing countries, continue to give conditions for the utilization of subsidies as policy tools for development in excess of those conceded to all WTO

109 Agreement Establishing the World Trade Organization, Annex 1A – Subsidies and Countervailing Measures, p. 257
110 Of the group of 20 developing countries initially exempt while their GNP per capita were below $1000 per annum, only Kenya and Zimbabwe remain eligible for the exemption as of 2010.
111 Agreement Establishing the World Trade Organization, Annex 1A – Subsidies and Countervailing Measures, p. 257
members, thus providing least developed countries even ampler policy space than that available to other WTO members. Moreover, the ASCM contributes to eliminating measures which serve special interests at the expense of national welfare. It accordingly helps doing away with and preventing distortions in domestic markets which are noxious to the economic prospects of WTO members, accordingly helping to make their economies more dynamic and competitive.\(^{112}\)

In turn, the provisions for the implementation of countervailing measures in the ASCM provide resource for those WTO members injured by subsidies employed by others to counteract subsidization which is causing injury.\(^{113}\) Given that developed countries are the ones better positioned to both provide subsidies and resist pressures from other countries for them to drop subsidies, the provisions for countervailing measures in the ASCM serve developing countries more than developed countries insofar as they provide an institutionalized means to offsetting subsidization, a means in the absence of which developing countries would have little recourse.

Another agreement which gives WTO members conditions to cope with challenges to their domestic industries is the Agreement on Safeguards, according to which WTO members may adopt temporary import controls as safeguards against products imported into the country in quantities and conditions “as to cause or threaten to cause serious injury to the domestic industry that produces like or directly competitive products.”\(^{114}\) Safeguards are to be applied for only as long as necessary “to prevent or remedy serious injury and to facilitate adjustment.”\(^{115}\) They apply mainly against developed countries, since according to Article 9 of the agreement, safeguards shall not be applied to developing countries except for when their share of the imports

\(^{112}\) Along the lines of what was noted earlier with respect to the TRIMS Agreement, this means the ASCM provides a positive incentive, not that it provides a guaranteed fix to the deficiencies in a country’s economy.

\(^{113}\) Agreement Establishing the World Trade Organization, Annex 1A – Subsidies and Countervailing Measures

\(^{114}\) Agreement Establishing the World Trade Organization, Annex 1A – Safeguards, Article 2, p. 273

\(^{115}\) Agreement Establishing the World Trade Organization, Annex 1A – Safeguards, Article 7, p. 276
into a country of a certain product exceed 3%. Therefore, the *Agreement on Safeguards* provides means for developing countries to both cope with challenges to their domestic enterprises and to facilitate their adjustment and corresponding competitive integration into the global economy.

**GATS**

The *General Agreement on Trade in Services* (GATS) is intended to serve the stated aspiration of establishing “a multilateral framework of principles and rules for trade in services with a view to the expansion of such trade under conditions of transparency and progressive liberalization and as a means of promoting the economic growth of all trading partners and the development of developing countries.”\(^{117}\) To such end it establishes obligations, disciplines and commitments about the liberalization of trade in services. Insofar as those limit the policy options available to WTO members to protect and nurture their services sector, they reduce the policy space WTO members have to pursue economic development, both in absolute terms and in relation to the conditions enjoyed by developed countries as they pursued their developmental pathways towards the current state of their economies. In this perspective, it has been argued that the GATS “makes it next to impossible for developing country governments to protect their own service industries from competition from well-established foreign firms, in the way that all successful developers have done in the past” (Wade 2003, 624). This argument stresses the competitive gap in commercial services between developed and developing countries, which is underpinned by the fact that by the time the WTO Agreement went into effect developed countries had a greater lead over developing countries in exports of commercial services than in

\(^{116}\) Agreement Establishing the World Trade Organization, Annex 1A – Safeguards, Article 2, p. 273

\(^{117}\) Agreement Establishing the World Trade Organization, Annex 1B – GATS, p.285
exports of merchandise. In fact, not only developed countries responded for 76.6% of global commercial services exports in 1994 as compared with 70% of global merchandise exports, but also in 2010 they remained with a greater share of global exports of commercial services (67.7%) than of global merchandise exports (54%).\(^{118}\) Though losing part of their share of global exports in both merchandise and services under the aegis of the WTO, their loss was greater in merchandise exports than in commercial services exports. This suggests developed countries retain greater competitive advantage in commercial services than in merchandise exports. Accordingly, if the GATS is constraining, and especially if it is as constraining to developing countries as it is to developed countries, it leaves developing countries ill-equipped to protect and nurture their services sector in the face of competition from services providers from developed countries.

Nonetheless, the GATS is neither utterly constraining nor equally or more constraining to developing countries as it is to developed countries. Following a ‘positive list’ approach, WTO members can select the services sectors they wish to liberalize under GATS as well as can limit such liberalization (Gallagher 2008). This allows WTO members to keep services sectors of their choosing reasonably insulated from external competition while they deem it necessary. It also allows them to control the pace and form of the liberalization process of those services sectors they choose to liberalize, sequencing their liberalization as they see fit. Besides, as clarified by the WTO, “[governmental] services are explicitly carved out of the agreement and there is nothing in GATS that forces a government to privatize service industries. In fact the word “privatize” does not even appear in GATS. Nor does it outlaw government or even private monopolies.”\(^{119}\) Additionally, even when choosing to liberalize a services sector, governments


retain the ability to regulate such sector, thereby being able to establish terms through which the participation of foreign providers in the domestic services sector liberalized takes place in ways constructive to the objectives governments pursue for their countries. Liberalization can spur improvements in the quality and reductions in the prices of services by generating competition in otherwise lethargic services markets. It can also serve to making available services which would not be available otherwise, at least not as fast and as comprehensively as foreign firms are able to provide, due to a lack of the necessary capabilities domestically. The entrance of foreign providers may also contribute to the acquisition and diffuson of expertise enabling the emergence of domestic providers. It also generates economic activity which cascades throughout the economy having a multiplier effect on income and general welfare. Accordingly, when taking place under a properly regulated and coordinated framework, the liberalization of certain services sectors can catalyze forces of economic advancement serving developmental purposes. Accordingly, if properly governed, liberalization can be an apt tool for promoting development through strategic integration into the global economy. Indeed, those developing countries which have coupled liberalization with pertinent regulation are the ones which have been able to benefit rather than suffer deleterious consequences from liberalization (Gallagher 2008).

Moreover, likewise the GATT 1994 and its annexes, the GATS recognizes and accommodates the distinct realities of developed and developing countries. Accordingly, Article XIX of the GATS establishes that in the rounds of negotiation of specific commitments, “[t]here shall be appropriate flexibility for individual developing country Members for opening fewer sectors, liberalizing fewer types of transactions, progressively extending market access in line with their development situation and, when making access to their markets available to foreign service suppliers, attaching to such access conditions aimed at [increasing their participation in
world trade in services, as established by Article IV].”

By prescribing consideration to the need of developing countries to both limit the extent to which they initially open and after that to judiciously sequence the liberalization of services sectors, the GATS sets up parameters for the negotiations of progressive liberalization of commercial services which are conducive to addressing the challenges faced and attending the objectives pursued by developing countries. Furthermore, although any WTO member whose benefits might be affected by another member withdrawing from a commitment may request the opening of negotiations for compensatory adjustments, a WTO member “may modify or withdraw any commitment in its Schedule [of liberalization], at any time after three years have elapsed from the date on which that commitment entered into force.”

Therefore, WTO members retain ample room to both protect and sequence the competitive integration of their services sectors into the global economy according to their domestic conditions and priorities. The GATS is only constraining with respect to the services sectors WTO members chose and commit to liberalize and keep liberalized.

The fact that from 1994 to 2010 the share of global commercial services exports of developed countries fell 8.9%, from 76.6% to 67.7%, while the share of global commercial services exports of developing countries rose correspondingly, indicates that developing countries have had conditions to develop their services sectors into globally competitive ones.

As demonstrated in chapter 3, the rate at which different developing countries are increasing their exports of commercial services, with their imported content accounted for, varies, but a number of them show a clear pattern of increase, and a few large developing countries like China and India are now among the top 10 exporters of commercial services. Indeed, China accounted

\[120\] Agreement Establishing the World Trade Organization, Annex 1B – GATS, Article XIX, p. 298

\[121\] Agreement Establishing the World Trade Organization, Annex 1B – GATS, Article XXI, p. 299

for 4.7% of the global market in 2010, ahead of Japan and France and behind only the United States, the United Kingdom, and Germany. India accounted for 3.3% of the global market in 2010, ranking seventh in the world, ahead of the Netherlands, Italy, Korea, and Canada (see Table 5 in chapter 3). This shows that although the GATS takes away policy options to the extent that WTO members commit to liberalizing services, it does not take away from developing countries the possibility of developing their services sectors so as to become able to successfully compete globally.

TRIPS

The stated objective of the *Agreement on Trade-Related Aspects of Intellectual Property Rights* (TRIPS) is to protect and enforce intellectual property rights as it “should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations.”123 With a view to fulfilling such objective, the TRIPS Agreement covers copyright and related rights, trademarks, geographical indications, industrial design, patents, layout-designs of integrated circuits, the protection of undisclosed information, and the control of anti-competitive practices in contractual licenses.124 Given the scope of the limitations it establishes in all these areas, the TRIPS Agreement is more constraining than the GATT, the GATS and the TRIMS Agreement. Most importantly, the nature of what it covers, particularly with respect to the impact of technology on development, combined with the scope of the limitations it establishes, makes the TRIPS Agreement most consequential to the prospects of development of developing countries.

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123 Agreement Establishing the World Trade Organization, Annex 1B – TRIPS, Article 7, p. 323
124 Agreement Establishing the World Trade Organization, Annex 1B – TRIPS
Before the TRIPS Agreement, loose intellectual property regimes were a staple in development strategies as they were central to speeding up (and in many cases indeed spurring) the process of catching up to more advanced economies (Amsden 2001; Chang 2002, Shadlen 2005). Prior to the WTO, by getting access to technology they did not have and (at least in the short-term) could not develop by themselves, late developers were able to absorb and build upon technology from elsewhere, practically free-riding the technological advancements from more advanced countries in their pursuit of greater efficiency and competitiveness. This process is important for allowing late developers to narrow the competitiveness gap between them and developed countries regarding both technology-intensive products and other products which might benefit from advancements in their production processes. But also, and most importantly, it makes possible to narrow the gap referring to the command over technology as diffused in their economies, central to the development of a critical mass for them to transcend the system of acquisition, learning by reverse engineering, and imitation, and become able to generate and incorporate technology in a sustainable fashion. With the TRIPS Agreement substantially limiting the ability of late developers to deny intellectual property rights or to limit the period during which intellectual property rights are secured, developing countries can no longer resort, in the same way successful developers did, to these dynamics which played an important role for the development of present day developed countries (Shadlen 2005). The TRIPS Agreement thus changed the developmental landscape in a way which arguably denies developing countries a development pathway proven to be efficacious and certainly easier, faster, and less costly than pursuing technological development on their own or paying licensing fees and royalties.

The change in the developmental landscape promoted by the TRIPS Agreement is consequential both for the prospects of development of developing countries and for their related
ability of catching up to the developed world. With respect to their absolute ability to develop, developing countries are affected by the TRIPS Agreement more in terms of the pace at which they are able to develop and the costs they face in the process than as regards the viability of development per se. That is, the TRIPS Agreement makes the process of development more arduous than it would be if developing countries were able to exploit existing technologies more freely as they and others have done in the past, but it does not constitute a categorical blockade to their possibility of development.

According to Jerome H. Reichman, even though single developing countries could face certain difficulties, “one must acknowledge the achievements of the developing-country negotiators, who have built numerous safeguards and escape hatches into the TRIPs Agreement” (Reichman 1998, 33). Due to the leeway conferred by those, despite the constraints it imposes, the TRIPS Agreement nonetheless gives WTO members opportunities to regulate intellectual property in ways contributive to their development (Correa 2000); for instance, by imposing “stringent rules on disclosure and subsequently granting narrow patents … or by allowing for wide-ranging research exceptions, countries can provide local actors with opportunities to 'invent around' patents without risking litigation for infringement (Shadlen 2005, 761-2). Most markedly, though it limited the conditions under which they can be used, the TRIPS Agreement leaves considerable room for the use of compulsory licenses, when domestic firms are granted access to intellectual property without the consent of its owner (Correa 2005; Shadlen 2005; Gallagher 2008). In addition to that, as noted by Reichman, WTO members “may … apply a broad experimental use exception so long as the rights holders are notified” (Reichman 1998, 32).
As with other WTO Agreements, the TRIPS Agreement included some instances of differential treatment to developing and especially the least developed countries, allowing for a few more years for them to adapt after its installment. Additionally, although it establishes that intellectual property should be protected in all fields and for a minimum of twenty years, a wealth of knowledge is readily available as never before due to the increasing ease of electronic access. As its period of exclusivity expires, knowledge formerly protected by intellectual property rights can be accessed much faster, and if on one hand it is likely that it is no longer cutting edge, thus leaving those acquiring it behind those which keep at the frontiers of innovation, it can aid the process of development of countries which did not have command over it. As regards copyrights in particular, “because the technologies that allow the reproduction of works have been improved and their price [decreased] …once a work has been commercialized it is very easy to copy it” (Bercovitz 1998, 146).

Moreover, as denoted above, WTO agreements such as the ASCM and the TRIMS Agreement leave ample room for WTO members to promote technological development and economic upgrading. Furthermore, many other aspects pertinent to a country’s ability to develop and apply innovations and in general modernize its economy, such as transports and telecommunications infrastructure and the economic environment as related to the confidence levels conveyed by its macroeconomic healthiness and political climate, lie outside the scope of the WTO (more on this in the next section). Therefore, though making the developmental landscape more trying for developing countries today than it was for countries developing in the past, the TRIPS Agreement does not take away from developing countries the possibility of development given that technological development and economic upgrading remain possible under the TRIPs Agreement.
As regards the ability of developing countries catching up to the developed world, the TRIPS Agreement may be understood to have a more consequential impact than it has on the possibility of development because by denying developing countries the possibility of free-riding the technological developments from developed countries unabridged, it makes it more difficult for them to catch up since they do not have the capabilities to compete with developed countries in the generation of intellectual property. In line with that, the TRIPS Agreement raises the price of access to patentable knowledge, which has two main consequences for developing countries. First, due to the increase in the cost of patentable knowledge, the breadth of patentable knowledge to which developing countries have access is reduced, limiting the pace at which they can advance both relative to their own condition and relative to the developed world. Second, because access to patentable knowledge involves paying patent holders which are mainly from developed countries, the TRIPS Agreement increases the flow of rents from developing countries to developed countries (Wade 2003, Correa 2005), adding up to the asymmetries in the distribution of wealth between them. These consequences make the TRIPS Agreement one of the main reasons why the WTO’s framework of agreements has been said to lock in the gap between developed and developing countries (Wade 2003). In this case the WTO would be blocking changes in the relative economic condition, and relatedly in the economic power assets, of WTO members, thereby severely reducing the possibilities of changes in the international system resulting from shifts in economic power. Specifically, it would deny several of the possibilities for transformational change in the international system indicated in chapter 2 (in Figure 2.2, specifications C, D1 and D2, plus how specifications A and B may overtime lead to those).

Yet if this was in fact the case, the advent of the WTO would have done away with relative changes in the economic conditions of its members, and that has not happened as the
trajectories of developed and developing countries denote (as demonstrated in chapter 3 and below in this chapter). Besides, economic growth and upgrading has taken place in many developing countries since the establishment of the WTO without indication that it is only possible due to heavy disregard of the TRIPS Agreement, since developed countries have not resorted to the DS system invoking it that often. Out of the 425 disputes brought to the DS system up until July 2011, only 29 have involved the TRIPS Agreement, and developed countries were the respondents in 20 of them while developing countries were the respondents in only 9 of them.\textsuperscript{125} Developed countries were the complainants in all but three of the 29 disputes involving the TRIPS Agreement (DS224, DS408 and DS409), and the number of WTO members participating as complainants remains very small. The only complainants in disputes invoking the TRIPS Agreement have been the United States (17 cases), the European Union (7), Canada (1), Australia (1), Brazil (2), and India (1). Most of the cases filed by developed countries were against other developed countries (17 of 26), and so are the three cases filed by developing countries – against either the US (1) or the EU (2).\textsuperscript{126} Thus, there is no sign that the TRIPS Agreement has been invoked in the DS system in ways consistent with viewing it as a tight straitjacket to developing countries.

Indeed, not only do the WTO agreements leave room for developing countries to pursue their development projects, as this section points out with respect to agreements critical to the policy space for development, but it is also worth underscoring that the engines of change are heavily anchored within countries and involve a lot which is outside the reach of the WTO (more on this below). Therefore, either alone or in combination with other WTO agreements, the

\textsuperscript{125} WTO: http://www.wto.org/english/tratop_e/dispu_e/dispu_agreements_index_e.htm?id=A26#selected_agreement

\textsuperscript{126} WTO: http://www.wto.org/english/tratop_e/dispu_e/dispu_agreements_index_e.htm?id=A26#selected_agreement
TRIPS Agreement does not establish a perpetually immutable gap between developed and developing countries. Rather, it makes it more difficult to narrow the gap than it was in the past. In particular, it affects the developmental landscape for developing countries by intensifying how catching up – advancing relative to developed countries – is more challenging than developing – advancing relative to their own economic condition. But neither is made impossible, and in fact the coordination of intellectual property rights through the TRIPS Agreement may constitute a positive incentive for the design of development plans accounting for it, which is facilitated by the rules of the game being stable. Indeed, as put by Reichman, “familiarization with the benefits of the patent system could stimulate greater investment in domestic research and development and should encourage local companies to develop their own intellectual property” (Reichman 1998, 33). Moreover, WTO members retain control over critical aspects inherent to technology development; for instance, “[investing] in human capital, providing marketing support to firms, supplying public infrastructure are all key elements of late industrialization that continue to steer clear of WTO rules” (Gallagher 2008, 73). Furthermore, widening the lenses of analysis beyond the WTO, factors such as advancements in telecommunications and the diffusion of knowledge, as well as the cheapening of and easier access to electronics and other products within the WTO trading system, help counteracting the effects of the TRIPS Agreement on the prospects for development of developing countries.

5.1.2. THE WTO AND THE PROSPECTS FOR DEVELOPMENT OF DEVELOPING COUNTRIES

According to the previous analyses, the possibility of development has not been extirpated from developing countries by the WTO nor has the WTO made the prospects for economic advancement of developing countries less promising than those for developed
countries. Instead, the WTO agreements limit some options and demand adjustments while at the same time bringing benefits in the form of reductions in distortionary restrictions to trade and positive incentives for economic modernization, a mix of implications which allows developing countries to both develop and catch up to the developed world. In this sub-section, that argument is further emphasized by identifying problems with the underpinnings of the view that regards the prospects for development of developing countries under the WTO trading system as being virtually null. Five core aspects make those views limited at best:

1. They assume a zero-sum relationship between multilateral governance and domestic policy autonomy;
2. They assume a single developmental pathway;
3. They assume that under-development reflects the impossibility of developing;
4. They focus on the loss of policy space and overlook the benefits from the WTO;
5. They focus on the WTO and overlook all else related to development beyond the WTO.

The latter is addressed in the next section. The consideration of the benefits from rather than just the constraining aspects of WTO agreements was discussed above and is further addressed below as it is germane to the relationship between multilateral governance and domestic policy autonomy. This sub-section thus addresses more specifically the first three aspects indicated above, the (implicit) assumptions that multilateral governance and domestic policy autonomy relate to each other in a zero-sum fashion, that there is a single developmental

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127 It is important to stress that ‘allowing’ development is different than making it either easy or certain. That the WTO agreements leave room for developing countries develop and catch up to the developed world signifies that attaining that remains a possibility; whether it materializes or not is a different issue, one pertaining to the will and ability of countries to pursue the materialization of possibilities. This point is further developed below in the discussion of the distinction between possibility and realization.
pathway in line with the experiences of successful developers, and that failures to develop indicate that the possibility of development is lacking or limited.

MULTILATERAL GOVERNANCE AND DOMESTIC POLICY AUTONOMY

Most analyses of the impacts of WTO agreements on policy space approach the issue from the perspective that policy space forfeited in multilateral agreements constitutes an absolute loss. As ‘policy space’ is normally conceived of as the sovereign ability to deploy chosen policies to promote economic development (Gallagher 2008), with a clear focus on the domestic realm, analyses tend to be geared towards how much the WTO agreements detract from that ability. For instance, an analysis in which the four aspects indicated above are present refers to the impact of the WTO agreements as “… a shrinkage not only of development space, but also of ‘self-determination’ space” (Wade 2003, 622). This view emphasizes the losses in policy options determined by WTO agreements as reductions in policy space and self-determination. That is consistent with how the focus on the tool kit of domestic policies available to governments prompts the treatment of the impacts of WTO agreements on policy space as detractions from such tool kit. When considering policy space as related solely to a finite set of policies in the domestic realm, anything detracted from such set is an absolute loss in policy space. With self-determination conceived of as command over policy space in its fullness, that is, over the full set of policies that can possibly be deployed, any such detraction signifies a contraction in self-determination. As a contraction of such nature is considered against the backdrop of past developmental experiences, it becomes synonym of impairment of developmental prospects.

But that is obviously a one-sided view which neglects the very raison d’être of the WTO agreements as they relate to exchanging control over some aspects of domestic trade-related policies for corresponding restrictions on the policy space of others, which otherwise would
hardly be attained. The conceptualization of policy space for development as a finite set of policies in the domestic realm makes multilateral agreements merely into constraining factors, overlooking any utility possibly drawn from them which would justify their establishment. That is at odds with the fact that the WTO is a consensus-based multilateral institution, with its agreements being thus underpinned by expected utilities for its members. Such neglect of the expected utilities of WTO agreements while considering their role in terms of policy space would be warranted only if there was absolutely no utility at all in them. But in this case there would be no reason for them to exist to begin with, so neglecting the expected utilities of WTO agreements makes for a handicapped account of the relationship of WTO agreements with the policy space of WTO members.

If WTO agreements are considered through a rational functionalist prism according to which “…institutions are created by states because of their anticipated effects on patterns of behavior” (Keohane and Martin 1995, 46; stress in original), they constitute an integral part of each WTO member’s policy set rather than something exogenous to their policy spectrum that only takes away policy options without providing anything in return. Rather than being mutually exclusive, domestic and foreign policy are mutually complementary in terms of what countries can and need to deploy in their quests for development and other objectives. They combine into a single universe of possibilities the management of which involves striking the proper balance between domestic policy autonomy and benefits only achievable through multilateralism. Limitations in policy space in the domestic realm are traded-off for restraints on other countries and overall gains in multilateral governance to the extent that such trade-off is deemed of utility. In this perspective, a country’s self-determination involves the entire universe of possibilities
including both domestic and foreign policy, and when countries choose to trade one for the other, they are exercising self-determination rather than purposelessly eroding it.

When countries pursue accession to the WTO, and once becoming WTO members when they engage in rounds of multilateral negotiations and commit to multilateral agreements, they are pursuing what the policies they can deploy domestically cannot give them. As the WTO enables and facilitates that, it contributes to governments accomplishing more for their countries than would be possible on their own. In this perspective, the WTO befits the understanding that international regimes “empower governments rather than shackling them” (Keohane 1984, 13). Accordingly, if governments are able to negotiate compromises balancing the relinquishing of certain domestic policy options and gains from restraints in the policy options of others and from the structuring of international trade relations, losses in policy space in the domestic realm can lead to net gains overall, thereby constituting positive instances of self-determination. Indeed, foregoing WTO agreements to preserve full policy autonomy domestically would be impairing to a country’s self-determination insofar as it would implicate forfeiting what it could gain through them. In this light, rather than affecting only domestic policy autonomy, self-determination involves making choices among the full range of policy options – domestic and foreign – that a country may possibly have in pursuing its objectives. Each choice may create some constraints, but those are deliberately accepted as part of the inevitable consequences of the exercise of self-determination. Developing country activism both in negotiation rounds and at the DS system indicates they are accordingly geared towards optimizing what they can get from WTO agreements; for instance, “[w]hen the developed world proposed another round of global trade talks in 2001 in Doha, Qatar, developing countries agreed to negotiate only on condition that development was the centerpiece of the negotiations” (Gallagher 2008, 62; stress added), and the
difficulties to concluding the round refer to corresponding disagreements between developed and developing countries. This denotes how rather than considering WTO agreements as carrying fruitless burdensome constraints, developing countries engage in negotiations with a view to their utility in helping them in pursuing their objectives.

DEVELOPMENT PATHWAYS

In part the overstressing of what is lost in domestic policy autonomy in most analyses of the impacts of WTO agreements on policy space is due to how the experiences of successful developers usually inform the assessment of the prospects for development in the present day. Those experiences work their way into analyses as an implicit assumption that there is a single developmental pathway in line with them. As that pathway involved a certain set of policies, the consequent implicit assumption is that if those policies are no longer available, that developmental pathway is severely impaired or fully obstructed, therefore denying developing countries the possibility of development. In turn, it is further assumed that in order to assess whether WTO agreements leave developing countries room to develop one needs to determine the extent to which they take away from them the policy options from that successful set. The more central a policy is to that set, the more impairing losing the option of using it is to the prospects of development of developing countries.

Contrary to the preaching of free market ideologues, successful development experiences recommend a heavy dose of government involvement. Much like Friedrich List’s (1841) prescriptions, developed countries developed with decisive participation of their governments as catalysts of economic activity. According to List, in their initial stage of development, countries should take advantage of free trade in order to gain both greater efficiency in agriculture from which to extract revenues from exports and access to manufactures and equipment from which to
nurture manufacturing. Once manufacturing takes in, countries should erect protective barriers to allow emerging manufactures to develop without being overpowered by competition from advanced countries. When their economies have advanced to a point in which national industries have become globally competitive, free trade should be reinstated so as to take advantage of a vaster market as well as of the positive incentives for continuous economic advancement from integration into the global economy. Along these lines, successful developers made use of extensive protective measures while they propped up their domestic industries, which is the reason why limitations imposed by WTO agreements on the ability of countries to do that are often interpreted as severe impairments on the prospects for the development of present-day developing countries (Chang 2002, Wade 2003).

The promotion of free trade by countries which have attained a high level of development was in fact identified early on in the era of modern economic development as a means through which they could at the same time exploit their advantage and “kick away the ladder” by which they climbed up (List 1841). Pointing to how Britain’s developmental trajectory making use of protectionism and domestic nurturing contrasted with its free market rhetoric by the time it had become the world’s major industrial power, List commended the United States for following a similar path. Along these lines, it has been argued that the United States actually did the same. According to Ha-Joon Chang, “[when] its industrial supremacy became absolutely clear after the Second World War, the USA was no different from nineteenth-century Britain in promoting free trade, despite the fact that it acquired such supremacy though the nationalistic use of heavy protectionism” (Chang 2002, 5). According to this view, not only do the WTO agreements deny developing countries the path pursued by developed countries by proscribing many of the policies they used while developing, but they derive from a deliberate strategy of the United
States and other developed countries aimed at extracting the greatest benefits from their advantage while keeping others from catching up to them.

In this perspective, the WTO agreements are deemed impairing because they affect the ability of WTO members to both protect and nurture their domestic economies, the two interconnected pillars of the developmental pathway pursued by developed countries while they were developing. On the domestic realm, successful developers had their governments engaged in intense strategic activism to nurture industrial development. The United States did it starting from the turn of the eighteenth to the nineteenth century: “Just before Thomas Jefferson took office as President, the US government began an ambitious project to pick winners. […] Arms industry was stimulated and the rest of manufacturing followed. […] America took [a decisive step towards becoming a leading industrial power] not by waiting for it to occur but by deliberately promoting the desired result” (Fallows 1993, 82). Likewise, recent developers in East Asia successfully developed over the second half of the twentieth century by means of substantial strategic state involvement in the economy. Though scholars have framed the East Asian experience in different ways, they emphasize distinct particular aspects while invariably agreeing on the centrality of concerted efforts from the national government. Robert H. Wade argued that the East Asian developmental success relied on the skillful manipulation of market conditions coupled with governmental support in a way that the “governments of Taiwan, Korea, and Japan have not so much picked winners as made them … by creating a larger environment conducive to the viability of new industries – especially by shaping the social structure of investment …” (Wade 1990, 334, stress in original). Similarly seeing the most important role of national governments not in directly carrying enterprises, but in creating propitious conditions for winners to emerge, Kent E. Calder portrayed the East Asian developmental state as a “hybrid
public-private system, driven preeminently by market-oriented private-sector calculations, but with active public-sector involvement to encourage public spiritedness and long-range vision …” (Calder 1993, 16). In this system, both state intervention and strategic resource allocation combine, creating what Calder termed ‘state-led strategic capitalism,’ for which Calder points that “…state structure matters” (Calder 1993, 20). Further stressing the public-private interplay, T. J. Pempel argued that development does not derive from, or cannot be produced by, a state’s government alone, but in fact demands a ‘developmental regime’ which rests on “mutual penetration of specific sectors of state and society particularly around accepted principles for organizing the nation’s political economy and its public policy profile […] in ways] akin to what Antonio Gramsci called ‘hegemonic projects’ – that is, broad and coherent thrusts or biases in the behavior of nation-states” (Pempel 1999, 158).

In turn, focusing more centrally on the state and its capacity to spearhead industrial transformation, Peter Evans argued that the developmental state owes its success to its embedded autonomy, for “[embeddedness] provides sources of intelligence and channels of implementation that enhance the competence of the state [and] autonomy complements embeddedness, protecting the state from piecemeal capture, which would destroy the cohesiveness of the state itself and eventually undermine the coherence of its social interlocutors” (Evans 1995, 248). Accordingly, Evans argued that “the character of state institutions helps determine whether and how countries change their position in the international division of labor” (Evans 1995, 247). Whereas Evans highlights the distinction between desire and capacity, placing central importance in the latter, Chalmers Johnson conversely favored the former in arguing that “a state’s first priority will define its essence” (Johnson 1999, 37). For Johnson, as the state fulfills functions such as [altering] market incentives, reducing risks, offering entrepreneurial visions, and managing
conflict …” (Johnson 1999, 48), it works as “a ‘catalytic’ agency …” (Johnson 1999, 60). Underpinning such role of the state is a commitment to promoting development, more so than the capacity to fulfill some of these functions which may be lacking at first.

Against the backdrop of the experiences of East Asian successful developers, which reinforced the general model of concerted state engagement in protectionism and domestic nurturing utilized by earlier developers, the WTO agreements would seem to make the developmental landscape fairly barren for developing countries given how they limit or proscribe many of the policies East Asian governments deployed as they spearheaded their countries’ developmental trajectories. However, that countries developed using such policies only shows it was possible to do so; it does not determine in any way that this is necessarily the only pathway. That one pathway was proven efficacious does not disprove the viability of others. Other pathways which were not pursued cannot be discarded when they were not tested. Indeed, even among recent developers in East Asia, distinctions in the mixes of policies utilized indicate “the possibility of more than one historical path to economic development” (Pempel 1999, 141). In fact, given that the WTO agreements were not the only circumstantial changes which made the developmental landscape different today than it was in the past, the extent to which those policies would be similarly efficacious is actually questionable; that is, “to the extent that [historical and international conditions] are different at other times and places, it is doubtful that the same formula responsible for East Asian success will produce success elsewhere” (Wade 1990: 346).

Whereas state strategic activism remains a pertinent general model (Weiss 2003), both for developing and developed countries, what such activism entails in many cases not only must differ across countries due to their internal particularities, but also must change due to changing
domestic and international realities confronting countries worldwide. What is possible to replicate is the general concept of state strategic activism involving state-private engagement, forming a coherent thrust geared towards development, but specifics are contingent on multifarious changeable variables. Besides, there are alternatives to state activism, some of which are still latent and others manifest yet untested, but others already realized. For instance, in sharp contrast with the state-led strategic capitalism model characterizing the developmental state, Kent E. Calder (1993) termed ‘Silicon Valley capitalism’ a model in which there is no state intervention or strategic resource allocation and, as in the Silicon Valley research and development (R&D) experience, the impetus for transformational economic activity comes from the combination of private venture capital and high-tech R&D. A hybrid model may be propitious especially where the private sector lacks the ability or willingness to supply venture capital, and where human and material capital and command over cutting edge technologies are not as readily available as they were as they enabled the Silicon Valley experience. This is a viable alternative for developing countries since “WTO provisions related to science and technology enable developing countries to promote their mid-technology (and, especially, high-technology) industries through the medium of science parks, R&D, national projects, as well as temporary and transparent barriers to imports” (Amsden 2005, 230). What is more, distinct pathways for economic transformation can coexist and may well be complementary; while the national government engages in strategic activism, the private sector may engage in development-conducive activities unrelated to that. The extent of the private sector’s contribution is nonetheless contingent on the environment for economic activity established centrally by the level of confidence instilled by the quality of economic policy and the prevailing political climate. As put by Robert Gilpin, “[i]f international competitiveness is indeed
increasingly based on technological developments, learning by doing, and economies of scale, then individual firms are ultimately responsible for creating or failing to create competitive advantage, but governments can and do have an important and even decisive role in promoting their own national firms in international markets” (Gilpin 2001: 213). Analogously, Jeffrey Sachs has argued that “[although] introductory economics textbooks preach individualism and decentralized markets, our safety and prosperity depend at least as much on collective decisions to fight disease, promote good science and widespread education, provide critical infrastructure, and act in unison to help the poorest of the poor” (Sachs 2005, 2-3).

There are also alternatives to climbing the manufacturing ladder – from low-tech labor-intensive to high-tech low-labor products – as a developmental pathway. For instance, India’s recent economic development as it incrementally becomes integrated into the global economy has been spurred more by technology services than by manufacturing. India’s developmental trajectory has accordingly been distinct from that followed by earlier developers and East Asian recent developers, as it has achieved success in technology-related services without passing through the development of a sound industrial base.\(^{128}\) Attesting to its faster pace of development in services than in manufacturing, from 1990 to 2010 India increased its share of global exports of commercial services – from 0.6% to 3.3% – more than its share of global exports of merchandise – from 0.6% to 1.7% (see Figure 3.1 and Table 3.5 in chapter 3). This is all the more telling of India’s success in its distinctive trajectory when considered against the fact that, as demonstrated in chapter 3, developed countries retain greater competitiveness relative to developing countries in services than in merchandise exports. As India is following a path

different from those of earlier developers, so can others, and each on their own way, many
developing countries have been finding their developmental pathways in the context of the
GATT/WTO so as to make developing countries on average to be outgrowing the developed
world (see Figure 5.1 below).

![Figure 5.1: Average Annual Rates of GDP growth (%)](image)

(Source: UNCTADstat)

There is wide variance in rates of growth among developing countries, with China and
India growing at above average rates and most of Africa still struggling. China did not reduce its
pace of development after it joined the WTO in 2001, nor has India seen a deceleration of its
economy in recent years. Instead, both China and India not only have kept high rates of
economic growth, but also have done so while gaining global competitiveness in certain key
sectors of their economies. They are also among the countries with the greatest improvements in
their Human Development Index (HDI) from 1980 to 2010; China ranks second and India sixth
in the United Nations Development Programme’s HDI improvement rank for the period.\footnote{UNDP: [Human Development Rankings] HDR 2010 Statistical Tables.}

Several other developing countries have likewise been growing at a much faster pace than the
developed world, which has been facing declining average growth rates, and also attaining
greater relative improvements in their HDI. Certainly, the developing world’s performance involves much more than what pertains to WTO agreements, as further discussed in the next section, but along the lines of what was pointed in chapter 3 regarding specifically their export performance, it nonetheless allows inferring that the WTO trading system is neither impeding nor doing much to curb the relative advancement of developing countries. From another angle, developing countries have found ways to develop in the context of WTO agreements. Indeed, although WTO agreements limit some policy options, viewing them as consummate impediments to the development of developing countries is tantamount to understanding history to be linear, the world to be static, and governments and the private sector of developing countries to be helpless, incapable of adapting to and exploiting the possibilities of the ever-changing global economy. Instead, as Kenneth C. Shadlen pointed, it is necessary to consider “not just how international agreements present countries with diverse opportunities for policy innovations, but how the interaction of changing international and domestic environments affect the diversity of developmental strategies we continue to witness at the down of the twenty-first century” (Shadlen 2005, 770).

PRESUMING THE CAUSE OF FAILURES TO DEVELOP

In addition to attesting to the fact that distinct realities demand distinct strategies, the fact that the opportunities presented to countries by international agreements spur diverse developmental strategies also relates to the fact that distinctions in developmental trajectories also have to do with whether and to what extent opportunities for development are seized. This brings up another aspect that typically plays a distortionary role in analyses of the prospects for development under the WTO trading system: treating failures to develop as indicators that the possibility of developing is lacking or limited. That is, lacking or wanting development is
automatically considered to be a reflection of a reality in which the possibility of developing is either nonexistent or very limited. This is in fact fairly pervasive not just in the literature on the impacts of WTO agreements on policy space for development, but in the development literature in general. In this perspective, the contrast between the limited number of countries which transitioned from less advanced stages of development into the developed world over the last five or six decades and the large number of countries which remain under-developed today is seen as vindicating the view that the possibility of developing is beyond the reach of most of the developing world, a view in line with André Gunder Frank’s (1966) and Immanuel Wallerstein’s (1974) structuralist conceptualization of the world capitalist system.

However, presuming that failures to develop indicate that most developing countries do not have the possibility of developing is problematic for two main reasons. First, in the same way that a successful developmental pathway does not disprove the viability of others, unrealized development neither establishes that it is a consequence of insurmountable barriers nor disavows any other potential cause. The existence of virtually insurmountable structural barriers is just one among many possible causes of failures to develop; without a specific investigation of the root causes of unrealized development it is thus impossible to attribute it to any particular cause. Accordingly, any automatic connection between failures to develop and the impossibility of developing is purely speculative.

Second, the presumption that lacking or wanting development reflects the impossibility of developing is improper also because it equates possibility with realization. Interpreting unrealized development necessarily as a consequence of the absence of the possibility of developing signifies considering development as entirely contingent on whether that possibility exists, which implies that if it does exists development is certain. That inadvertently neglects the
distinction between possibility and realization; whereas an absent possibility makes something impossible, the existence of a possibility does not automatically guarantee its realization. Specifically, that the possibility of developing exists means that there are opportunities that if seized make it possible; it does not ascertain that the opportunities will indeed be seized.

As put by Kevin Gallagher, “…policy space alone will not develop economy” (Gallagher 2008, 67); what countries do with the policy space they have is what determines their developmental performance. Accordingly, given that as demonstrated above (and furthered in the next section) developing countries do have extensive opportunities which if seized have a constructive developmental character, unrealized development results more so from untapped rather than from inexistent opportunities. For instance, as pointed by Robert Wade with respect to the distinction between East Asian successful developers and the developmental performance of other countries, “conditions inherent to the global political economy – favorable access to industrial countries’ markets, increased access to international finance, and increasing relocation of production by multinational corporations to low wage sites – created opportunities but did not determine which countries would seize them” (Wade 1990, 346). East Asian successful developers distinguished themselves because they took advantage of opportunities to develop, which is the reason why the factors that positioned them to do that while others failed to do so has been extensively studied (e.g. Wade 1990; Calder 1993; Evans 1995; Pempel 1999; Johnson 1999; Weiss 2003). Analogously, considering the huge differences in development performance in the twenty-five years between 1970 and 1995 in the developing world as a whole, Stiglitz and Squire argued that they “show that growth does not simply occur with the passage of time” (Stiglitz and Squire 1998, 139). That is, they show that opportunities to develop will not
independently realize themselves, and accordingly, that the most successful developers are those which are more efficacious in realizing opportunities.

Moreover, a central aspect of the dynamics involving possibility and realization is that it is not only about seizing opportunities but also about creating them. Opportunities are contingent on the condition of agents; different conditions make for different opportunities insofar as each country’s condition determines what is and what is not within the reach of its political and economic agents at a particular moment. What is possible but out of reach constitute latent opportunities, whereas what is possible and within reach constitute actual opportunities. What pertains to seizing opportunities refers to actual opportunities. In turn, as seized opportunities contribute to a country’s development, they improve its ability to interact with the reality confronting it, thus expanding the quantity and quality of the actual opportunities it will have in subsequent periods. That is, seized opportunities contribute to converting latent opportunities into actual ones. And then again, whether or not these converted opportunities are seized affects the array of opportunities in ensuing periods, and so on. Conversely, un-seized opportunities do not contribute for the country’s development, thus either not increasing or even reducing the quantity and quality of actual opportunities in subsequent periods if due to the corresponding lack of improvement the country is unable to accommodate exogenous changes. What a country makes of the actual opportunities it has is thus central to its developmental trajectory.

At the heart of how what countries make of opportunities affects their development process is what seizing opportunities entail. The more seized opportunities contribute to empowering a country to cope with and take advantage of the circumstances confronting it in development-conducive ways, the more they constructively contribute to the country’s developmental trajectory. This involves at the same time improvements in general welfare and in
the country’s ability to take advantage of latent opportunities, that is, it involves intertwined social, political and economic development, along the lines of a Gramscian hegemonic project providing a coherent development-g geared thrust, as suggested by Pempel (1999). Conversely, the more seized opportunities serve special interests, the less they contribute to the country’s process of development. This refers to instances in which the benefits of seized opportunities are concentrated in the hands of a few beneficiaries and there is little consequence for the country’s ability to take advantage of latent opportunities in development-conducive ways, along the lines of the characterization of the social dynamics of dependent development proposed by Cardoso and Faletto (1969).

The distinct consequences of the manner in which opportunities might be seized highlight the centrality of the domestic political economy to whether and how a country has the ability to and actually seizes opportunities in development-conducive ways. Accordingly, constructive developments in a country’s domestic political economy are crucial for its developmental trajectory. In particular with respect to a country’s integration into the global economy, internal improvements expand its array of opportunities insofar as they enhance its ability to both convert latent opportunities provided by the global political economy into actual ones and seize them. That is, whereas as pointed out by Kevin Gallagher specifically with respect to the WTO “…there was still considerable policy space left [after the Uruguay Round] for developing countries if they choose to use it” (Gallagher 2008: 67; stress added), there is also considerable room for development outside of the scope of the WTO, involving internal aspects such as infrastructure, macroeconomic stability, and the institutional environment, which are central to each country’s ability to cope with and take advantage of the reality confronting it (more on this in the next section). As there is ample room for development and the core responsibility for
constructively using the room available for pursuing development lies with each WTO member, if WTO members do not make good use of the opportunities they have, the consequential poor development performance should not be held against the WTO or the international system more broadly. Indeed, the current difficulties faced by the United States and the European Union stress internal failings as central to their economic trials. Besides attesting to the centrality of a country’s internal dynamics for its economic performance, this highlights how the dynamics of change in the international system is affected by what both developing and developed countries do with the opportunities related to the possibilities of economic advancement they have. As for developing countries, for developed countries improvements in economic condition constitute a possibility that may or may not be realized. Whether and how developed countries exploit the opportunities for economic advancement at their disposal is as important for changes in relative economic conditions and relatedly for the distribution of economic power assets as is the performance of developing countries in that regard. The relative position of developed countries is not a constant; instead, it is contingent on their performance in preserving or improving it in the same way that it depends upon the performance of others in improving their economic condition. Accordingly, a poor performance on the part of developed countries in seizing the opportunities they have in ways instrumental to their economic advancement may contribute to the erosion of their relative advantage.

To be sure, differences in economic conditions and more broadly in power assets favor those better endowed as they affect the range of opportunities of each country. But not only do countries have ample room for improvements irrespective of those asymmetries, as further demonstrated in the next section, but successful development experiences also indicate that asymmetries in the distribution of power assets do not impose an unyielding impediment to
development. For instance, Japan developed while under US oversight, an accomplishment which Chalmers Johnson characterized as one in which Japan “gave a virtuoso performance of how to extract the most from the US while paying the least to support its global strategies” (Johnson 1999, 56). China’s meteoric rise in the last few decades has taken place irrespective of the existence of a formerly much stronger regional economic player – Japan – and of two global players which still have much larger economies – the US and the EU. The same is valid for many other Asian countries, including vis-à-vis China as it has become a major regional and global player. Likewise, several Latin American countries such as Brazil, Chile, and Peru have been growing faster in recent years than the US, the EU, and Japan.

Yet, the fact that many developing countries have been on reasonably steady developmental trajectories and that on average developing countries are both developing and catching up to the developed world does not mean that developing is an easy feat. Instead, it only means it is possible, in contrast to the views underpinned by the assumptions that a limitation in domestic policy autonomy is an absolute loss in policy space, that there is just one pathway to development, and that failure to develop reflects the impossibility of developing. The fact that developing countries on positive trajectories still have a long way to go and that a number of developing countries are still struggling to make any progress are remainders of how challenging a task it is to set and keep in motion a successful developmental trajectory. Nonetheless, there is no dearth of opportunities for development, as the next section further elaborates on, and accordingly, differences in the performances of WTO members in confronting such challenge reside centrally in their internal conditions, which are several removes from the WTO.
5.2. Economic Policy beyond the WTO:

This section puts the WTO agreements in the context of the broad developmental landscape of WTO members, highlighting how the agreements cover only a small portion of that landscape and thus leave a large host of aspects critical for development unaffected. This has been largely overlooked by studies of the impact of the WTO on the policy space for development due to their focus on what is related specifically to the WTO, which is one of the main reasons why they tend to overestimate the impacts of WTO agreements on the prospects for the development of WTO members.

The literature on the implications of WTO agreements for the prospects for development of WTO members typically limits itself to assessing the extent to which WTO agreements curb access to policies widely used by past successful developers, the reason why it runs into the drawbacks demonstrated above. In the few cases when some consideration is given to aspects other than those specific to the WTO, it is usually in aspects nonetheless related to the issues covered by WTO agreements and the corresponding industrial policies employed by earlier developers (e.g. Weiss 2005). Thus, the prospects for development under the aegis of the WTO are usually treated as if development depended either solely or centrally on trade issues related to industrial development. Insofar as it neglects every other aspect in a country’s economy, such overstressing of the relationship between trade and industrial development adds to the problematic issues from treating limitations in domestic policy autonomy as absolute losses in policy space, development as necessarily following a single pathway, and failures to develop as testimonies to the possibility of developing being slim or null. Without putting trade and industrial development in the context of the entire dynamics of economic activity, the impacts of WTO agreements on the prospects for development of WTO members are overestimated. In
combination with the other aspects discussed above, such overestimation makes for a distorted account of how the WTO affects its members’ developmental landscape.

Economies are complex systems, each one teeming with its own particularities as well as integrating (and thus affecting and being affected by) regional and global systems. As such complexity is dynamic, involving changeful social interactions interconnecting multiple spheres – economic, political, cultural, ethnic, religious, etc. – within the domestic and international realms, development economics is no precise science. In light of both the challenges inherent to the complexity of each country’s economy and the approach prevalent in development economics and its corresponding failings in the recent past, today’s development economics has been said to be in some ways “like eighteenth-century medicine, when doctors used leeches to draw blood from their patients, often killing them in the process” (Sachs 2005, 75). Yet based on both the successful and the failed experiences of the post-World War II era, including the involvement of international institutions, scholars and practitioners have recently started to reshape development economics. As put by Stiglitz and Squire, “[we] know now more about the mechanisms of development [than when] many of the grand theories of development originated in the 1950s and 1960s, when information about the development process was scarce” (Stiglitz and Squire 1998, 138). Diverse experiences including the successful trajectory of East Asian developers, the backlash from the ill-conceived structural adjustment attempts, the 1980s debt crisis and the developing country-originated financial crises in the 1990s, the transitions from centralized to market economies in Eastern Europe, and the continued struggle to fight poverty and disease in many African countries illuminate the understanding of development, contributing to an ongoing process of change in research and policy.
With a view to contributing to overhauling development economics, Jeffrey Sachs (2005) has proposed a method for development economics akin to clinical medicine. Sach’s proposed ‘clinical economics’ method involves “a thorough differential diagnosis, followed by an appropriate treatment regimen” (Sachs 2005, 83). The key to the method is in the former, particularly in how by incorporating the lessons from the last decades of developmental experiences, Sach’s ‘Checklist for Making a Differential Diagnosis’ provides an apt framework for identifying the root causes of and challenges for overcoming poverty. The framework is accordingly instrumental to illustrating the multitude of factors pertaining to a country’s economic condition and to the task of promoting its development.

Sach’s seven-part diagnostic checklist starts with mapping poverty, which involves determining aspects such as the proportion of households with unfulfilled basic needs, the spatial distribution of poverty and basic infrastructure, the ethnic, gender, and generational distribution of poverty, and risk factors such as demographic trends, environmental and climate trends or shocks which might impinge on public health and agricultural productivity, the vulnerability of the country’s economy to commodity price fluctuations, and the incidence of diseases and their effect on the economy (Sachs 2005). The second part involves the economic policy framework, including the cost of doing business in the country and how it varies across the country, the state of key infrastructure – power, water, communications and transportation – and its distribution and the impact of that on costs, as well as whether there is investment in improving that infrastructure, the scope and quality of investment in human capital, the trade policy framework and its impact on businesses, and the incentives system for investors. Only the last two issues in the second part involve the WTO, and in each case the WTO is nonetheless

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130 The checklist is schematized in Table 1 on pg. 84; Sachs briefly addresses each of the parts in pages 83-88. All that is presented here about the checklist refers to that.
both a constraining factor and a serviceable multilateral arm of trade policy. The third part involves the country’s macroeconomic condition, including public sector revenues and expenditures, tax administration and expenditure management, whether there is an overhang of public debt and its profile, and whether there is macroeconomic instability and if so what are its characteristics and causes. As with the first part and most of the second part, none of these issues is covered, with respect to what governments can and cannot do, in any manner by WTO agreements; instead, they refer to issues over which each country has total command and responsibility.

The fourth part involves “the interface of society with the physical environment” (Sachs 2005, 86). This refers to the distribution of the population in relation to access to transport ways, including proximity to ports, trade routes, and navigable waterways, to the impact of population density on the environment, to the agronomic conditions and how they affect agricultural productivity, and to the effect of the country’s ecology on human, plant, and animal diseases and their change overtime. The fifth part of the framework for making a differential diagnosis of a country involves governance patterns. It includes civil and political rights, the effectiveness of the systems for public management and their impact on the environment for economic activity, the political structure and the political climate, the scope of corruption and the levels in which it is more present, the internal order and the levels of security, whether internal frictions extrapolate into cross-border conflict and security threats, and whether there are ethnic, religious, or other divisions and how they affect governance and the economic environment. The sixth part involves cultural barriers to development, including structural inequality based on social status, religion, or gender, as well as events triggered by cultural frictions such as civil wars and
diasporas. None of these aspects integral to parts four through six of the framework pertains to the trade-related issues covered by WTO agreements.

The seventh and last part of the framework, involving geopolitics, in turn includes two issues directly related to the WTO, participation in regional and international trade groups and how it affects the economy, and the barriers faced to enter in developed country markets. The other issues in this last part, however, like most in the entire framework, do not pertain to the sphere of coverage of the WTO; they involve the impact of the state of the country’s relationship with the international community on its economic prospects, including whether the country is subject to international sanctions, and whether there are cross-border security threats of regional or global nature and scope, such as war and terrorism, or incoming refugees. This comprehensive framework for mapping out a country’s conditions in order to identify the roots of, as well as the barriers to overcoming, poverty and underdevelopment speaks to the complexity of each country’s makeup and how that impinges on prospects for development. It highlights not only how a country’s fortune is contingent on multiple factors, but also how it is heavily anchored in the country’s internal reality since the majority of the factors affecting it are internal. Accordingly, analyses of the prospects for development under the aegis of the WTO centered around trade-related aspects of industrial policy consider only one among many other aspects which are in fact more central since each country’s trade and industrial policy and performance depend on them.

The methodology behind the World Economic Forum’s (WEF) Global Competitiveness Index (GCI) further underscores the centrality of each country’s internal makeup for its economic fortune. The GCI does not include some of the aspects in Sach’s framework – the characteristics and distribution of poverty, the society-physical environment interface, and
cultural and most geopolitical factors – and highlights others not addressed in the same level of specificity in that framework – the efficiency of the domestic market, business sophistication, technological readiness, innovation, and the varying importance of different aspects for countries at different stages of development. These distinctions derive from the specific approach of each analytical framework – Sach’s is more comprehensive and the GCI’s zeroes in more closely on how a country’s political economy affects core determinants of economic prospects – and make them mutually complementary. In turn, as they align with respect to the core elements pertaining to a country’s economic condition, their similarities cement the centrality of those elements for a country’s prospects for development.

Compiled since 2005 as a comprehensive measure of “the microeconomic and macroeconomic foundations of national competitiveness,” the GCI is composed by 12 components, or ‘pillars,’ which are weighted in relation to the profile of each country’s economy.131 The first one refers to institutions, involving “the legal and administrative framework within which individuals, firms, and governments interact to generate wealth.”132 It is relevant for a country’s competitiveness and growth because the quality of institutions “influences investment decisions and the organization of production and plays a key role in the ways in which societies distribute the benefits and bear the costs of development strategies and policies.”133 Both the structure and the functioning of the country’s institutional framework are important; this includes the structure and operation of the legal framework, government attitudes towards markets as regards the ease of and confidence in the climate for doing businesses, the quality of government management of public finance, auditing and accounting practices and prevailing businesses ethics. The importance of these institutions is fairly established in the

133 World Economic Forum. The Global Competitiveness Report 2011-2012, p. 4
literature; indeed, though questioning their serviceability in arguing that rather than underpinning the developmental trajectories of developed countries they came only after those countries were far along in that process, Ha-Joon Chang recognizes that both the ‘world standard’ in institutions has risen ever since and countries developing today can benefit from it without having to invent critical institutions (Chang 2002, 138). This component is very much in line with the business environment aspect of part two, part three – fiscal framework – and five – governance patterns – of Sach’s framework. The second component of the GCI refers to infrastructure, which “is critical for ensuring the effective functioning of the economy, as it is an important factor determining the location of economic activity and the kinds of activities or sectors that can develop in a particular instance.”\textsuperscript{134} This is also under part two of Sach’s framework. The third component involves the macroeconomic environment, whose stability is necessary though not sufficient for constructive economic activity. This aspect is included under the fiscal framework part of Sach’s framework. The GCI’s fourth component involves health and primary education, basic conditions for a productive labor force. In turn, the fifth component involves higher education and training, which relate to an economy’s ability to transform and improve its competitiveness. These components of the GCI are included under the human capital aspect of part two of Sach’s framework. All of these aspects from the first five components of the GCI are essentially internal issues; as much as development is contingent on them, it is extraneous to the WTO.

The sixth component of the GCI refers to the efficiency of the domestic market, including the level of competition, tax and investment policies, and demand conditions referring to how preferences and sophistication press for quality and innovation. Competition will generate welfare gains and instigate economic advancement if calibrated to constructively involve both

\textsuperscript{134} World Economic Forum. The Global Competitiveness Report 2011-2012, p. 5
domestic and foreign products, so the trade policy is relevant. One of the aspects integral to this component thus relates directly to the WTO. The seventh component of the GCI involves labor market efficiency, crucial for labor productivity, the economy’s flexibility, and the country’s attractiveness for talent. Involving a combination of aspects from parts one, two, and five in Sach’s framework, this is another aspect to which the WTO is extraneous. The eighth component of GCI, financial market development, is critical to both channeling capital for investment and supporting a vibrant consumer market; it involves both private sector sophistication and appropriate regulation. Again, it relates to a couple of parts of Sach’s framework and though subject to the provisions of the GATS, it remains mainly under the control of national governments given how they retain the power to regulate their domestic financial sectors. The ninth component, technological readiness, refers to “the agility with which an economy adopts existing technologies to enhance the productivity of its industries.”

It stresses the access and ability to use advanced technologies over where they were developed, the latter being inconsequential as long as the former is in place (except at the highest stages of development, as elaborated below). This is an aspect with which the WTO agreements are related, particularly the TRIPS Agreement. But it relates as much to the TRIPS Agreement as it does to the internal makeup of WTO members insofar as both the access to and ability to use advanced technologies is contingent on the state of sophistication of economic agents and the conditions they encounter to flourish within the country’s economy. The WTO also relates to the tenth component of the GCI, market size, since foreign markets are considered extensions of the domestic market. Export-driven economies are accordingly accounted for in that foreign markets contribute to economies of scale in ways analogous to large domestic markets. Yet, as further elaborated below, whereas some countries like China have been growing with heavy reliance on foreign

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markets, the domestic market not only provides a base but also many countries have been growing on a consistent basis mainly owing to their domestic markets.

The eleventh component, business sophistication, refers to “the quality of a country’s overall business networks and the quality of individual firms’ operations and strategies.” Business networks involve the efficiency of supply chains whereas firm sophistication involves the quality of operations and commercialization strategies, which can have a positive spillover effect. Finally, the twelfth component, technological innovation, refers to the ability to generate new technologies, which is of particular importance for those economies which have reached a stage of development in which “they approach the frontiers of knowledge and the possibility of integrating and adapting exogenous technologies tends to disappear.” That is, when countries have exhausted most of what can be attained by improving structural aspects such as infrastructure and institutions or by adapting or improving existing technologies, creating new technologies becomes an imperative for them to keep improving their competitiveness. This demands propitious conditions for top notch R&D, including public and private funding, human capital, channels of collaboration bringing together universities and businesses, as well as the protection of property rights. Whereas the latter refers directly to the TRIPS Agreement, the WTO has no bearing on the other aspects, as articulated in the previous section.

The components of the WEF’s GCI reiterate how improvements in a country’s economic condition are heavily contingent on internal aspects. Though some aspects of the components of the GCI relate to the international realm, and particularly to WTO agreements, most of what pertains to them are extraneous to the WTO. Accordingly, a country’s prospects for development remains for the most part independent from WTO agreements and very much in the hands of

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domestic – public and private – agents. Any analysis which does not correspondingly contextualize the impact of WTO agreements on the prospects for development of WTO members is, therefore, severely lopsided. What is more, whereas developed countries are confronted with the imperative of continued innovation, countries which still have not reached that stage of development have a much wider spectrum of possibilities for economic advancement given that at that stage “substantial gains can be obtained by improving institutions, building infrastructure, reducing macroeconomic instability, or improving human capital.” 138

Given that all of those aspects are totally under their command, developing countries have substantial opportunities for development which are completely independent from the WTO or any other international economic institution. That is, given their stage of development, developing countries have more to improve than developed countries on aspects that are extraneous to the WTO; this gives them the condition to both develop and catch up to the developed world. Developing countries might face imperatives for continuing to advance similar to those confronting present-day developed countries only when they approach the stage of development of developed countries. And there is nothing that blocks them from incrementally catching up to the developed world in ways which can position them to be competitive when they reach that point.

Attesting to the possibility of developing based on aspects internal to developing countries, two of the largest emerging economies, Brazil and India, owe their recent growth patterns more to their domestic realities than to their international economic interactions. The latter is certainly a contributive part, especially as a dynamic catalyst in several fronts, but the extent of its contribution is more contingent on the incremental processes of economic reform within Brazil and India than the other way around. A clear indicator of how aspects extraneous to

the WTO are central to a country’s developmental performance is that the top 5 factors pointed in the WEF 2011-2012 GCI Report as being the most problematic for doing business in Brazil and India are all internal ones. In Brazil these are, in descending order, tax rates, tax regulations, inadequate supply of infrastructure, restrictive labor regulations and inefficient government bureaucracy, and in India, inadequate supply of infrastructure, corruption, inefficient government bureaucracy, tax regulations, and inflation.\textsuperscript{139} As all of these are essentially internal issues, their perceived centrality to the economic prospects of Brazil and India thus indicates that their main barriers and opportunities for development are independent from external factors. Moreover, trade has contributed to their development essentially by means of the dynamic effects of imports and exports as they generate positive repercussions throughout the economy, in line with the impacts of trade in economic activity pointed in chapter 4, whereas their balances of trade have not contributed much to their economic growth as raw numerical components of their GDPs. If on the one hand incremental internationalization has brought dynamic spillover effects instrumental for economic growth and upgrading, on the other hand the share of the contribution of international trade to their gross domestic products (GDP) has not changed much and has remained very small compared to the contribution of other elements to their GDP. As denoted in Figures 5.2 and 5.3 below, the contribution of each country’s balance of trade to its GDP has in fact been negative many times over the last few decades.

\textsuperscript{139} World Economic Forum. The Global Competitiveness Report 2011-2012, pgs. 126 and 204
Brazil has in fact not shown much variation in the shares of GDP of each of the GDP components. India in turn has seen the contribution of gross capital formation to its GDP increase while the contribution of final consumption expenditure decreased. Both in turn have seen their gross national incomes grow above the world average; from 2001 to 2010 Brazil’s gross national income per capita grew 285% and India’s grew 291% while the world average grew 173%, the United States’ grew 133% and Japan’s grew 120%.¹⁴⁰ In this perspective, the fact that both have been experiencing GDP growth without much contribution from their balance of trade component attests to the possibility of development without heavy reliance on external markets, as signified by their low levels of internationalization. It also denotes how diverse developmental pathways are viable. This underscores how in the same way that government involvement in the economy is a given and what matters “is not ‘how much’ but ‘what kind’” of involvement takes place (Evans 1995, 10), what is central is not how much trade takes place but what type of trade relations a country is engaged in. That is, what matters is not how the balance of trade compares with consumption and investment, but how trade relations contribute to a

country’s process of development. Low levels of internationalization, and a slow pace of incremental integration into the global economy, have combined with the centrality of their domestic markets in enabling both Brazil and India to grow and modernize in recent years. That does not mean they could not develop equally or even more pronouncedly with a different calibration; indeed, in all likelihood multiple other calibrations could be as or more successful, in the same way that others could be less so; yet, their experience shows that a developmental pathway focused on the domestic political economy rather than on massive export promotion is viable.

In conclusion, whereas “a range of significant alternatives continues to exist for countries to use foreign capital, knowledge, and technology in support of national developmental goals” (Shadlen 2005: 763), countries retain control over critical aspects of internal character such as the institutional environment, infrastructure, and macroeconomic stability. Accordingly, claims that the WTO constitutes a straitjacket for developing countries are improper not just because they are underpinned by distortions related to the impact of WTO provisions on industrial policy, but also because they neglect the fact that the developmental landscape is much broader than what pertains to the WTO and what is beyond the WTO provides substantial opportunities for development.

5.3. Development under the WTO and Change in the International System:

This concluding section considers the implications of the aspects highlighted in the preceding sections for the role of the WTO in the dynamics of change in the international system. It points out that the WTO does not impede developing countries to develop and catch up to the developed world, thus not blocking the possibility of changes in relative economic
conditions which may have transformational consequences for the international system. The section articulates how the manner in which the opportunities available are used affects developmental trajectories and accordingly impacts on absolute and relative gains, which carry potential transformational implications for the international system. Moreover, it also articulates how the security environment helps explaining why the WTO enables rather than blocks the development of its less powerful members, postulating that a non-critically threatening security environment makes the counter-alternative – a blocking of the prospects for development in order to preserve or increase the relative power advantage of the most powerful members – unavailable because it requires forfeiting absolute gains to prevent others from accruing relative gains, a move that would be unjustifiable within the polities of the most powerful members.

Given that the WTO does not kick away the ladder climbed by developed countries as they developed nor is such ladder the only developmental pathway available, the WTO does not take away from developing countries the possibility of developing. Though imposing some constraints, the WTO agreements leave ample room for countries to deploy measures pertinent to the trajectory of earlier developers. It also leaves open to its members the possibility of following alternative developmental trajectories. In addition, so much of what is critical for the process of development pertains to essentially internal aspects that no international institution can possibly block the possibility of development of any country. Given that a country’s development is so heavily anchored on its domestic political economy that, short of nearly complete domination the possibility of development cannot be obliterated, no international institution is capable of imposing constraints which would suffice to extirpate a country’s prospect for development, least of all if it has a multilateral character. Indeed, the record of development performance shows that, however difficult, development is possible. Although a number of countries still
struggle to set in a successful developmental trajectory, developing countries in different stages of development have both incrementally increased their per capita GNP, many at rates of increase above that of the developed world, and modernized their economies.

But whereas the possibility of developing exists, has the WTO made the process of development harder for developing countries than it would be if absent? No matter what, development is a challenging endeavor; otherwise many more countries would have made it into the developed world both before the GATT and after the GATT and the WTO. The key question is thus whether the WTO has made it even more challenging than it would otherwise be. On one hand, by proscribing certain policy options the WTO has made the pursuit of development more trying as it made the developmental landscape less unfettered. On the other hand, in exchange for the constraints to which they submit themselves, WTO members have benefits from constraints placed on others, from the structuring of international trade relations, and from the positive incentives for economic reform it engenders. The answer to that question thus resides in the balance between the impact of the constraints the WTO creates and the benefits it generates. Yet this balance is difficult to determine for several reasons. To begin with it involves distinct aspects of the developmental landscape, whose consequences for the prospects of development for any given country thus do not present themselves in clear-cut comparable units of measurement. In addition, the WTO provisions are only one part of a country’s entire developmental landscape, and precisely isolating their impacts from everything else pertaining to a country’s prospects for development is a formidable challenge. Moreover, in terms of their effect across countries, the extent of the constraining impact of WTO provisions and of the benefits a country derives from them is contingent on the particular reality of each WTO member. Because differences in their realities make WTO provisions have distinct implications
for different countries, there is no standard parameter for a cross-country assessment. The fact that each country’s reality is ever-changing makes a vertical cross-country assessment all the more challenging. Furthermore, even if all these challenges were overcome, they speak only of the possibility of developing; whether the opportunities to realizing that possibility are seized would still remain undetermined.

However, the analyses in the preceding sections establish enough about the implications of the WTO agreements for the developmental landscape of developing countries to enable a conclusion that, in a general sense, at worst the WTO does not make the process of development much more difficult than it already is, and at best it facilitates that process to a certain extent by conferring upon developing countries conditions they would not otherwise have. It does not make the process of development much harder than it would be without it because it is possible for WTO members to cope with the constraints created by WTO agreements. Since the WTO agreements not only leave ample room for countries to deploy measures that are similar to, or have an effect similar to, those of the measures they proscribe, but also allow alternative developmental pathways, the provisions of the WTO do not make the process of development much more trying than it already is. In addition, the WTO does not affect much the extent to which the process of development is challenging because it does not change the fact that in large part the greatest challenges and thus opportunities for development lie within countries in aspects over which the WTO has no or little bearing.

In turn, the multilateral governance of trade relations confers benefits which potentially help WTO members in their pursuit of development. Whereas developing countries today pursue development in the context of constraints which earlier developers did not face, not only are those constraints workable but developing countries are also pursuing development in the context
of beneficial aspects provided by the WTO trading system which earlier developers did not have. The WTO trading system helps preventing pernicious unilateral measures and trade wars potentially stemming from such measures, which have proven to be noxious in the past. It promotes the stability of and predictability about the rules of international trade, creating a much more auspicious environment for trade relations than that which existed prior to it. It accordingly helps creating incentives for investments in countries which otherwise would be less appealing. It also imposes constraints on the most advanced economies that, as they developed, their predecessors were not subject to. In the absence of all these beneficial aspects of the WTO trading system, the least powerful countries would be worse off since they would be the most vulnerable in an environment in which trade relations were not as structured and power asymmetries were less mitigated, an environment which would therefore carry greater volatility and grant greater returns to power. Accordingly, in relation to the condition countries would face otherwise, the least powerful countries are the ones which accrue the greatest benefits from the structuring of trade under the WTO. Whereas the precise significance of such aspects for each country is difficult to determine, whatever their significance these are nonetheless beneficial aspects which present-day developed countries did not enjoy as they developed.

What does this say about the role of the WTO in the dynamics of change in the international system? Since at worst the WTO does not make the process of development much more difficult than it normally is for developing countries, it does not cause much negative change in their possibility of developing. As developing countries accordingly retain the possibility of improving their economic condition, and the WTO at a minimum does not worsen that possibility in relation to the possibility that developed countries have for economic advancement, the WTO does not alter the possibility of relative changes in economic condition
in ways disfavoring developing countries. Therefore, at a minimum the WTO does not affect the possibility of transformational changes in the international system related to the reduction of the asymmetries in the economic power assets commanded by developed and developing countries. This is inconsistent with the narrative of the WTO in line with the realist view of international institutions, in which the WTO should help preserve or increase the advantage of the most powerful countries with respect to the command of economic power assets. To do that, the WTO would have to worsen the possibility of relative changes in economic condition for developing countries vis-à-vis developed countries, which could entail either, ceteris paribus, significantly deteriorating the possibility of developing for developing countries, or, ceteris paribus, substantially improving the possibility of economic advancement for developed countries. As it does neither, the WTO does not reduce the possibility of relative changes favoring developing countries in the command over economic power assets, thus not playing a role consistent with improving the position of the most advanced economies by helping to reduce the possibility of transformational changes inimical to that.

The role of the WTO with respect to the dynamics of change in the international system is inconsistent with the narrative consonant with the realist view of international institutions even if it is assumed that the hegemon’s power, and by extension the power of other advanced economies as well, might benefit from the institutionalization of a predictable and durable constitutional order which helps both in curbing disruptive behavior from emerging powers and in reducing the costs of enforcing order in the international system, in line with the thesis about the endurance of the post-WWII liberal international order advanced by G. John Ikenberry (1999). This is so because those prospective benefits do not vanquish the systemic implications of the fact that the WTO does not deteriorate the possibility of relative changes in economic
condition favoring developing countries. Given that under the WTO the possibility for developing countries to attain improvements in their economic condition in absolute terms and relative to developed countries is not reduced much, even at worst, and certainly not in any utterly debilitating manner, and overall in fact may be improved to a certain extent, the WTO does not interfere with the possibility of changes in the distribution of economic power assets in ways favoring the most powerful countries in the system. As developing countries retain the possibility of attaining improvements in economic condition by reducing the gap separating them from the developed world, they have the possibility of changing the distribution of economic power assets and accordingly transforming the international system. Therefore, irrespective of the benefits they accrue from the institutionalization of trade relations under the WTO, the most powerful countries in the system are nonetheless subject to the possibility that their relative advantage over economic power assets may erode. Since that might generate systemic changes (as denoted in Figure 2.2 in Chapter 2 by specifications C and D) subverting their clout over the system, the WTO does not affect the dynamics of change in the international system in ways consistent with the preservation of the privileged position of the advanced economies.

Furthermore, the WTO does not affect the most fundamental aspect pertaining to the prospects for the development of its members, which is whether the opportunities for realizing the possibility of development are seized. That involves two core aspects: first, whether the opportunities are seized; and second, the manner in which the opportunities thus available are seized. Both affect developmental trajectories and accordingly impact absolute and relative gains, thereby carrying potential transformational implications for the international system. As articulated above (in Section 5.1.), the fact that the possibility of developing under the WTO trading system exists signifies that there are both actual and latent opportunities to that effect.
Whether those opportunities are acted on is decisive for a country’s developmental trajectory; seized opportunities contribute to both economic gains and the transformation of latent opportunities into actual ones, whereas by failing to seize opportunities a country not only forfeits economic gains but also incurs an opportunity cost related to potentially reduced actual opportunities as it might fail to at least keep up with ongoing changes in the international system. In both cases there is a multiplier effect with respect to the prospects for development; while in the former case that effect is virtuous, in the latter case it is vicious. For this reason the process of development is more a matter of whether opportunities are seized than of differences in opportunities at a given moment; that is, because seized opportunities have a multiplier effect which enables expanding a country’s developmental landscape as they enable expanding existing opportunities, it matters more what a country does with the opportunities it has than the set of opportunities it has at a certain moment in time. As it is up to each country to seize existing opportunities for development, beyond the distribution of possibilities, relative changes in economic condition (and their systemic implications) are contingent on the balance of seized opportunities across countries. That is, developed and developing countries alike attain absolute and relative gains or suffer absolute and relative losses in economic condition centrally due to whether or not they take advantage of the opportunities they have. Whichever is the case in turn has consequences for the country’s ensuing opportunities and thus for the long-term process of change in the international system.

In addition to whether opportunities for development are seized, the manner in which opportunities are seized both evinces prevalent forces in the domestic political economy and affects the country’s developmental trajectory. The way opportunities are seized determines the nature of the returns obtained, thus affecting whether and how the array of opportunities for
development is expanded. If they are seized in ways consistent with strengthening a country’s ability to continue improving its economic condition, they impinge constructively in the country’s developmental trajectory. Otherwise, even when accruing economic gains a country may see its economic prospects weakened. For instance, when seizing opportunities in ways that serve narrow interest groups, a country may be accruing an economic gain when thought of as a unitary entity, but considering the country’s internal heterogeneity such gain may in fact deteriorate the country’s economic prospects if, for example, it constitutes simply an increase in concentrated wealth and does not contribute to improving the engines of economic advancement. In this case a concentrated gain not constructive for the country’s prospects for economic advancement – while perhaps considered as a gain for the country as a unitary entity – masks an actual loss in the country’s development prospects. In this perspective, the nature of the gains a country as a whole accrues matters for its developmental trajectory. On one hand at the surface level in many cases those gains are consequences of the independent actions of private actors, and the size and nature of the gains thus derive from differences in capacity and willingness within the private sector. As those gains result from private wealth-maximizing pursuits that are not concerned with the optimization of gains for the country’s entire economic machine, the activity of private actors does not necessarily always produces optimal consequences for the country’s developmental trajectory. On the other hand, as governments set the institutional environment for economic activity and can centrally affect the human, material, and financial assets underpinning their countries’ economies, they play a role in establishing foundational conditions and orienting the general direction of economic activity, thus impinging on both the nature of the gains from the economic opportunities available to, and seized by, private actors and their repercussions throughout the economy. In this light, the way each country’s domestic
political economy affects the manner in which opportunities for economic advancement are exploited can either assist or undermine its economic prospects. Both developed and developing countries accordingly affect relative economic conditions among them and relatedly the distribution of economic power assets, thereby possibly generating transformational changes in the international system.

The acknowledgement that the impact of international agreements on the economic condition of the parties is contingent on both whether and how the opportunities they provide are seized demonstrates that the issue of the distribution of gains – absolute and relative – from international cooperation has two critical layers in between the pre-agreement reality and the actual realized impact generating absolute and relative gains. Accordingly, whereas on one hand what determines absolute and relative gains from international economic cooperation is how the parties perform in relation to each other with respect to whether the opportunities created are seized, the manner in which they are seized, and the corresponding actual impacts on their prospects for economic advancement, on the other hand those aspects are absent from the negotiations for international agreements, which take place focusing instead on potential impacts. That is so because estimating actual impacts is complicated by uncertainty about whether and how the opportunities provided by an international agreement are seized, as well as by how complex it is to determine the corresponding impact for a country’s ongoing ability to improve its economic condition. Consequently, potential impacts – as they inform negotiations – are more likely to be based on possible impacts presuming the exploitation of opportunities provided than on de facto likely actual impacts. The gap between possible and actual impacts impinges on the whole dynamics of cooperation, from the incentives for negotiating international agreements, to the negotiations themselves, to the actual impacts of resulting agreements. It
accordingly gives room for actual impacts widely different from those which were estimated at the time agreements were negotiated. The fact that non-stop change in domestic and international realities continuously alters the parameters based upon which international agreements are negotiated intensifies the likelihood and potential scope of the corresponding gap.

Given such lack of control over, and thus uncertainty about, the impacts of international agreements, the actual gains from an agreement and their distribution among the parties are so elusive at the time it is negotiated that countries are in fact negotiating sets of possibilities rather than anything close to specific results. Such sets involve numerous possibilities resulting from diverse combinations of levels of opportunity and varying extents to which opportunities might be seized. The minimally acceptable possibility of a set entails the combination of the last tolerable level of opportunity conceded to another party when such opportunity is seized in its fullest by that party and none of the opportunities the country receives from that party is seized. Beyond that, numerous possibilities exist, and that plays into the negotiating process. For instance, a country might find it acceptable to grant a higher level of opportunities knowing that the probability that they will be fully exploited is very limited, and such a higher level of concessions might be used to extract a higher level of concessions from others. That is, the consideration that possibilities are hardly ever fully realized may make agreements involving the potential for high relative losses more acceptable; the problem is when a party in an agreement manages to exploit the opportunities it gets more extensively than expected.

The security environment mediates the considerations about the sets of possibilities evaluated during negotiations. As pointed out by Aaron Friedberg, “economics and national security are and will continue to be intimately intertwined” (Friedberg 1992, 134). Their relationship is affected by the circumstances in which considerations are made and decisions are
taken. In an analysis of the integration of economics and security in US statecraft, Michael Mastanduno (1998) argued that economics and security are more likely to be linked when the international structure is either multipolar or unipolar, the international strategic environment is threatening, and the US dominates international economic competition. That means that under these circumstances it is more likely that economic affairs will be subject to serving the strategic security interests of the US. The counter expectation would thus be that in different circumstances a disconnect between economics and security would be more likely to exist, making economic affairs less or not at all affected by security considerations.

As the stakes in security issues are higher, they involve greater competition and generally have a zero sum character (Jervis 1982). For this reason, when security concerns are higher because the security environment is more threatening, it is more likely that concerns for relative gains will become central. In this case, those security concerns would impinge on economic affairs, putting relative gains concerns at the forefront of economic negotiations. Conversely, in less threatening security environments, more emphasis can be given to absolute gains as relative gains become less important. The fundamental logic is that absolute gains in private or national welfare are the primary interest in the economic sphere except for when security concerns are strong enough to override them. That is, relative gains concerns will take precedence in economic affairs only when the security environment is highly threatening; by contrast, when that is not the case, not only are states more open to favoring absolute gains while accepting the possibility of relative losses, but also it becomes very difficult to diverge from that since it becomes difficult to make the case domestically that it is necessary to bear the burden of compromised economic prospects – that is, of forfeiting potentially welfare-enhancing
prospective absolute gains – for the sake of security – that is, in order to keep others from obtaining relative gains

In this perspective, the security environment at the moment of the inception of the GATT is critical to explaining its open character privileging absolute gains rather than being centrally concerned with relative gains for developed countries. In the aftermath of World War II, the United States and its European allies had no reason to consider the developing world a security threat. Instead, there was a general acknowledgement that the economic fortunes of all countries were interdependent. This reality did not prompt the tying together of economic and security affairs in a way that dictated the imposition of domineering economic institutions; instead, it allowed for the creation of an international trading system privileging the unprejudiced provision of opportunities for absolute gains, which served the US and its allies for purposes other than securing relative gains and accordingly harbored the possibility of relative losses for them. In the same way, the ensuing security environment, which remained consistent with that from the moment the GATT was created, illuminates why there was no change in its open character throughout the years – in fact, that character was reinforced when the WTO was created. For the same reason, there is no reason to expect a change in that character in the foreseeable future.

Indeed, the GATT (1994) recognizes that the development of developing countries contributes to the economic advancement of the developed world. Article XVIII:1 of the GATT states that “The contracting parties recognize that the attainment of the objectives of this Agreement will be facilitated by the progressive development of their economies, particularly of those contracting parties the economies of which can only support low standards of living and are in the early stages of development.”\textsuperscript{141} Exactly because the economies of developed countries

benefit from economic development elsewhere, their governments face a hard sell if they are to convince their populations that measures to curb the development of a host of other countries are necessary. That is, because policies aimed at preventing others from obtaining relative gains carry high opportunity costs in terms of absolute gains forfeited, it will normally be hard to find support for them – more pronouncedly so in democracies. Without a substantive justification, governments have no basis for pursuing policies aimed at impairing the prospects for economic advancements of others at the expense of opportunities for domestic economic advancement. Therefore, a non-threatening security environment not only does not give reason to subordinate economic affairs to security concerns, but also makes it difficult for governments to do so if they decide to anyway.

The creation of a trading system that allows for developments inimical to the maintenance of the economic primacy of the United States and other advanced economies has been explained differently. The focus has been on the fact that, rather than expressing frustration with and withdrawing support from the international trade regime, the US has not stopped being supportive of it while losing export shares and facing large trade deficits. Judith Goldstein (1993) explains this empirical anomaly, as she puts it, as resulting from the role of ideas in establishing ‘sticky’ policy orientations in a way that “the creation of rules and procedures to enforce a particular economic strategy at one point acts as a constraint not only on current behavior but also on the range of options available to future entrepreneurs” (Goldstein 1993, xii). That is so because “through their incorporation into institutional structures, [ideas] also affect the evolution of policy over time” (Goldstein 1993, xii). Goldstein nonetheless does not specify the extent of material interests that such ideational ‘stickiness’ is able to overwhelm. In other words, as much as ideas may play a role in setting patterns of policy that offset material interests that would
otherwise prompt different policies, the scale of material losses suffered by the US is unclear, to say nothing of any sense about the magnitude of losses that US support for the WTO-based international trade regime can withstand.

In turn, G. John Ikenberry’s explanation for the expansion of the postwar liberal international order and the continuity of US hegemony despite the US’s economic decline provides a rationale for the strengthening of the WTO-based international trade regime in such context based on a ‘lock in’ effect of the liberal institutions emanating from their “increasing returns character” (Ikenberry 1999: 125). It suggests that a hegemon such as the US values getting “a predictable and durable order based on agreed-upon rules and institutions” (Ikenberry 1998: 59) and is willing to forfeit some gains in return. Yet Ikenberry leaves undetermined how much a hegemon’s gains are affected and how much gains a hegemon is willing to forfeit. Analogously, it is unclear when a ‘lock in’ effect sets in.

Finally, domestic-focused interest-based trade policy explanations stress the contest among competing interest groups. In acknowledging internal conflicts of interest, theoretical propositions following this approach aid in explaining certain policy orientations and particularly call attention to the fact that “[all] governments repeatedly bend to internal political pressures and provide economic benefits to narrowly focused but vociferous (and sometimes well-financed) interest groups at the expense of the long-term welfare of the general population” (Cohen 2000, 5). However, even if some have considered electoral pressures, in focusing on pieces this approach overlooks the whole; in other words, in focusing on interest-group disputes this approach mainly overlooks the highly prized goals of national security and domestic welfare, neglecting the contentious reconciliation of group interests with national goals that takes place in the national security and economic policy bureaucracies.
These explanations have in common a lack of clarity about the specific consequences of the liberal international trade regime and how that relates to US support for it. They make propositions about the power of certain factors to offset outcomes from the international trade regime that are unfavorable to the US without at all specifying such outcomes. Most importantly, notwithstanding their contributions to solving the puzzle they address, they neglect the dynamics between economics and security that allow for economic affairs not to be overridden by security imperatives, and thus for absolute gains to take precedence over relative gains concerns.
The WTO and the Role of International Institutions in the International System

Research on the role of international institutions has been focused on certain aspects they might influence – especially the prospects for cooperation and the implications of power asymmetries for particular relationships – without paying much attention to how exactly international institutions “play a role” in the international system. Analysts have thus neglected the most fundamental issue pertaining to the role of international institutions: situating international institutions within the dynamics of change in the international system. By identifying such a limitation in the literature and presenting a framework for thinking about international institutions being situated accordingly, this dissertation thus contributes to the literature on the role of international institutions. As it provides a framework of analysis based on a conceptualization of the role of international institutions as integral to the dynamics of change in the international system, the dissertation advances the understanding of, and thus provides a springboard for further investigating, the systemic role of international institutions. Additionally, the analysis of the WTO in this dissertation, anchored in such a framework, accordingly advances the literature on the impact of the WTO on the international system as well as illuminates the broader debate in international relations scholarship over the role of international institutions in the international system.

These contributions of the dissertation pertain to the two central questions that address the enduring indeterminacy of the role of international institutions – how to think about the role
of international institutions in the international system, and according to that understanding, how to analyze it empirically. This concluding chapter summarizes the dissertation’s contributions to elucidating each of these interrelated questions. Addressing the first question, it reiterates that assessing the role of international institutions requires clarity about what “playing a role” in the international system actually means, and restates the dissertation’s core argument that the role of international institutions refers to whether and to what extent they affect the process of change in the international system. In view of that, the chapter restates the conceptualization of change in the international system introduced in chapter 2, and elaborates on the implications for the study of the role of international institutions as well as for the study of systemic change more broadly.

As regards the second question, the chapter both reintroduces the WTO as the case that was selected for analyzing the role of international institutions in the international system and discusses what chapters 3, 4 and 5 indicate about its role in the international system. Based on that, the chapter highlights the implications of the WTO’s role for the debate on the role of international institutions. Finally, the chapter elaborates on avenues for continuing research, with respect to both the WTO in particular and international institutions in general, as well as to the dynamics of change in the international system and its implications for scholarship and policymaking.

ON THE ROLE OF INTERNATIONAL INSTITUTIONS

The role of an actor within the international system refers to how it affects the state of normalcy that would exist in its absence – that is, it refers to how different the system becomes as compared to the state of normalcy that would exist in the actor’s absence. As the state of normalcy of the international system is characterized by continuous, incremental change, as the
world is ever-changing rather than being static (Jones 1981), the role of any actor within the system refers to whether and how it affects the process of change that would take place without its presence. Thus, determining the role of an actor within the international system involves identifying whether and how it affects the dynamics of change in the international system.

Since the international system is continuously undergoing change, whether an actor affects the dynamics of change in the international system is not simply a matter of whether that actor causes change; rather, it involves whether the change it causes is systemically relevant. Given that what matters is not whether change happens, but whether changes are salient enough to be system-relevant, change in the international system is centrally a matter of the systemic implications of changes in its constitutive elements. That is, with the international system understood as the constellation of forces driving and conditioning behavior in the system at a given moment – rather than simply the elements from which those forces derive – a systemically relevant change is one that affects the system’s underlying incentives structure; as it alters the drivers and conditioners of activity in the system, it transforms the dynamics of the system, thereby establishing a new systemic environment. Accordingly, determining whether an actor affects the dynamics of change in the international system, and thus plays a systemically significant role, requires assessing whether it causes transformative changes in the system’s embedded incentives. In this perspective, an actor plays a systemically significant role when it produces transformative impacts in the challenges and opportunities provided by the dynamic interconnection of domestic and international cultures and political economies and by the diffusion of technology which would not happen otherwise. This includes, among other aspects, changes in the hierarchy of prestige, the international institutional framework, public and private
interests and their distribution, the drivers and conditioners of economic activity, the distribution of regime types, and the patterns of enmity and friendship.

To determine whether an actor causes transformative changes in the forces driving and conditioning behavior in the international system, one needs to discern the actor’s impact from the effects of all other forces at play. With continuous change deriving from multiple sources as the state of normalcy in the system, the role of any actor refers to what it effects vis-à-vis the normal workings of the sources of change in the international system. This requires identifying what causes change in the international system’s constitutive elements. Multiple sources of change combine in making the system’s constitutive elements fluid, and ever-changing. As these sources are mainly internal to states, and the differences among them determines that states are constantly experiencing changes which are ineluctably distinct from each other in nature and pace, the complex consequences of the sources of change at play within and across states determine that new international systems are always in the making.\(^{142}\) This has major implications for the understanding of the process of change in the international system, and thus for the study of international relations.

In view of the understanding that continuous change is always incrementally producing new systems, insofar as it impinges on such a process of incremental change, the character of the international system is central to evaluating the prospects of such a process. A system characterized by an utterly domineering structure that enabled the corresponding global hegemon to have control over the processes of change within states and thus of their consequences, constitutes the only possible way through which the process of change in the international system

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\(^{142}\) Robert Gilpin (1981) identified inevitable differential rates of economic growth as a central source of change in world politics. The argument here highlights the understanding that the continuous process of change in the international system includes but is not limited to the economic sphere, and that it involves not just the rate but also the nature of change across countries.
might be controllable by such a hegemon, thereby enabling it to secure the endurance of its primacy. Such a system, however, has never existed and indeed is hardly viable. In the absence of such a domineering system clogging the engines of change in the international system, the inevitability of change prevails, thereby making power transitions virtually unavoidable.

In this perspective, the most powerful states in the system invariably have two main options: either accepting and shaping the terms under which power transitions occur, or forcefully attempting to block them. The latter option involves never-ending high financial and human costs to continuously keep prospective power contenders at bay; it implicates closely tying economic and security affairs in a way in which absolute welfare is traded for the attempt to satisfy the notion that security assurance requires primacy. This option, however, is problematic on several counts. First, the aspired goal of ultimate security comes at the expense of security inasmuch as the use of force and its systemic repercussions expose the state pursuing such a goal to immediate security challenges it would not face if it did not adopt the aggressive position required by that goal. This alone gives reason to question whether the forceful attempt to block power shifts in fact serves the state’s security. Yet another problematic aspect of this option is that in addition to compromising the security of the state, the circumstances it creates make everyone, including the state trying to stay ahead, worse off welfare-wise, given both that the use of force drains resources and that conflictual relations, possibly including warfare, undermine avenues for constructive economic interactions. Besides having obvious negative implications for the general well-being, this strategy also carries negative consequences for the security of the state inasmuch as military power is contingent on the state’s economic condition. Accordingly, a third problematic aspect of a strategy centered in retaining primacy is that it is difficult to justify, especially in democratic settings, due to its costliness. Support for such a
strategy would require a clear dire security threat; otherwise there is no basis for sacrificing well-being – that is, peace and prosperity. Finally, the actual prospects for such a strategy’s success are doubtful because even the United States, in its condition as a unipolar power, faces limitations as to what it might accomplish worldwide, not least because of the impracticality of sustaining it endlessly given the financial and human costs involved, and the likelihood that such a strategy would trigger balancing alliances, making it all the more difficult to actually succeed in attaining the strategy’s goal. In fact, such goal can never be attained; instead, it is a perpetual goal, one which must be continuously pursued, and for all the reasons identified above, this is a strategy that in all likelihood is self-defeating.

The issues discussed above virtually ensure that a strategy of shaping the terms under which power transitions occur becomes the obvious choice. This is consistent with the United States’ efforts to establish a liberal international order after WWII, and to continue sustaining such an order ever since, even though that order does not prevent power shifts inimical to the United States’ primacy. Indeed, the fact that the strategy of shaping the terms under which power transitions occur is the only practically viable option supersedes ideational stickiness (Goldstein 1993) and captivity to special interests (e.g. Cohen 2000) as an explanation for continued US support of an order in which it suffers relative losses in the economic sphere. As G. John Ikenberry argues, the liberal international order supported by the United States serves US interests because it “locks in” frameworks the US favors for the conduction of international affairs and facilitates a sharing of the burden in sustaining the order (Ikenberry 1999). By establishing such an order and encouraging emerging powers to join and grow invested in it, the US sets the terms under which emerging powers rise and operate after they have become peers of, or even eventually surpass, the US. This is a wise strategy not simply because it accomplishes
that, but as denoted above, because in the absence of full-blown global domination, it is the only feasible option for maximizing security and prosperity in an international system experiencing continual change.

What is relevant about the liberal international order spearheaded by the US in the aftermath of WWII is not that it is open, that is, allows for systemic changes, since any non-utterly domineering system is open; instead, what makes it distinct is its constitutional character, as Ikenberry (1999) identified it. This constitutional character is central both to establishing the parameters according to which international relations are conducted and to mediating the ineluctable process of change in the international system prompted by the fact that its elements are ever-changing. An open system cannot prevent power transitions; it may only establish the terms under which they occur. Specifically, the international institutions of an open international system cannot prevent power transitions; all they might do is to establish the parameters according to which they will occur. This is indeed a central purpose fulfilled by the institutions of the liberal international order.

Because international institutions of an open international system cannot clog the engines of change in the system, thus being unable to block power transitions, international institutions cannot possibly serve the purpose suggested by the realist school of thought. The understanding that international institutions are means aiding the most powerful states to preserve the distribution of power in the international system is inconsistent with the ineluctable dynamics of change in the international system. Whereas they might bring other benefits, such as shaping the character of the system for the foreseeable future, international institutions simply cannot override the sources of change within states, which generate distinctions in the nature and pace of change across states. Such differential processes of change do not automatically lead to, but
might well cause, the erosion of the power advantage of the most powerful states in the system. Although the framework for interactions might be one that is likely to last beyond it, such erosion of their power advantage nonetheless generates systemic changes that transform the system into one in which the clout of the heretofore most powerful states is reduced. Consequently, although the character of the system remains fairly unaltered, the privileged position of the most powerful states is compromised.

Kenneth Waltz’s (1979) ‘defensive realist’ view is the only realist view that might be reconciled with the fact that international institutions in an open system cannot prevent power transitions. As a framing of international relations in which security is not understood to be solely or necessarily centrally dependent on power capabilities, it accommodates a view of international institutions as having a security-enhancing utility that is not directly related to the preservation of the distribution of power. In this case, if they contribute to creating a less threatening security environment, international institutions may serve the most powerful states by helping reduce their need for large power differentials. As it is virtually impossible to retain power differentials endlessly short of full-blown imperial domination, this potential effect of international institutions on the need for power differentials in fact is possibly one of the most effective ways that international institutions might serve the most powerful states in the system. Indeed, this effect makes it possible for relative decline to coexist with the preservation or even the increase of a state’s security, even in the absence of reshufflings of alliances. Importantly, relative decline, or the rise of others, is not averted; instead, the utility of institutions lies, in line with what is practically feasible in an open system, in mitigating the security implications of inevitable shifts in the distribution of power.
The role of international institutions in setting a framework mediating the dynamics of change in the international system is relevant to all states in the system given that the terms under which power transitions occur affect what they mean to the system. Power capabilities are always changing, and at certain points incremental changes may become salient enough to be transformational. Transformational changes in power assets do not necessarily cause power transitions; in most cases they do not. Power transitions are rare and occur after incremental processes of change over long periods of time. Yet when they occur, the manner in which they occur is critical for the post-transition era. If institutions aid in power transitions not being accompanied by disruptive behavior on the side of emerging powers (e.g. deriving from destructive intentions weaponizing recently acquired power), or declining ones (possibly deriving from insecurity about the prospect of no longer being ahead) they can be instrumental in making power transitions occur uneventfully. By reassuring declining powers and enfranchising rising powers, international institutions may help preventing contentious behavior from either side, thus acting as forces contributing to making the process of change in the international system constructive.

These considerations concerning the role of international institutions in the international system highlight the need to study international relations with attention to the processes of change in the international system, rather than from a comparative statics approach. Indeed, one of the main reasons for indeterminacy in the literature about the role of international institutions lies in its failure to situate international institutions in the dynamics of change in the international system. The dissertation’s insights about situating international institutions accordingly advance the understanding of the role of international institutions and set promising avenues for further research.
ON THE ROLE OF THE WTO

Once international institutions have been situated properly in the dynamics of change in the international system, the next challenge in assessing their role in the international system is how to analyze them empirically, accounting for their impacts both inclusively and as dissociated from every other source of change that pertains to the dynamic linkages between domestic and international affairs. Given the uniqueness of international institutions, this task is contingent on which one is being analyzed. This dissertation selected the WTO as a specific case to study due to its distinctive multilateral character and the greater measurability of its impacts compared to those of other leading international institutions; the dissertation analyzed whether and how the WTO alters the prospects for changes in the international system, and what that means for the debate on the role of international institutions in the international system.

Situating the WTO within a state-system continuum in order to identify the main spheres in which the WTO affects states in the international system, the dissertation focused on examining the two spheres that have a more direct impact on the economic condition of WTO members, and thus potentially on their economic and military power. First it examined the sphere of the conduction of international trade under the aegis of WTO provisions, analyzing both general trends – in chapter 3 – and the workings of the WTO’s DS system – in chapter 4. The key question guiding the analyses was whether, despite its imperfections, the less powerful states are worse-off or better-off with the WTO as contrasted with a hypothetical reality in which, in the absence of the WTO, power differentials would affect trade relations unabridged. The analyses indicate that not only are the less powerful states not straitjacketed by the WTO, but in certain instances they are in fact better off than they would be otherwise.
Evidence of trends in international trade indicates that the GATT/WTO has provided a regulatory framework that has enabled global merchandise and commercial exports to increase substantially over the last several decades, with developing countries gaining shares of global exports from developed countries. Though general trends in exports are not enough to determine whether the WTO was the central factor behind, or had any direct influence on, the export performance of its members, the fact that developing countries have been able to gain substantial shares of global exports indicates that, at a minimum, the WTO did not preclude developing countries from increasing their exports faster than developed countries while both increased their merchandise and commercial exports. Indeed, as it was only natural for developing countries to play a greater role as exporters than they had in the past once they developed the necessary conditions, the fact that they in fact gained shares of the global export markets can be seen as attesting to the truthfulness of the WTO’s underlying principles and professed goals. This highlights that the sources of economic change are primarily internal to states at the same time that it suggests that the impact of the WTO is open and contingent on whether and how each of its members manage to exploit the opportunities within the constellation of state-system continuums in the international system.

If increasing shares of global exports are understood to signify increases in revenue potentially conducive to improved economic conditions, the general trend in global exports can be understood as possibly implicating in shifts in economic power. This is inconsistent with the realist-inspired narrative of the WTO, according to which it would be expected that the WTO precluded eventual changes in the distribution of power. This is, however, consistent with the understanding that institutions in an open international system cannot clog the engines of change in the system.
The analysis of the WTO’s DS system in chapter 4 focused on assessing whether it has altered the prospects for changes in the economic condition of its members in ways potentially generating systemically transformative consequences. This approach emphasized the possibility that changes of potentially transformational implications would be effected rather than whether that possibility was in fact realized; the rationale behind such an emphasis is that the realization of possibilities is contingent also on factors beyond the domain of the WTO. This distinction, which is generally neglected in the literature on the workings of the WTO, is central to determining the actual impact the WTO has on the dynamics of change in the international system.

The assessment of the workings of the DS system indicates that it alters the relative ability of WTO members to secure their trade interests, improving the ability of economically weaker states to secure their trade interests vis-à-vis economically stronger states. Not only does the DS system reasonably mitigate capacity constraints to its utilization, but there are also available avenues – within and outside the DS system – for WTO members to further overcome capacity constraints confronting them. This indicates that the ability of WTO members to protect their trade interests is better than it would have been without the DS system, as well as that there are prospects for continuing improvements in such ability. Yet, power constraints remain a problematic issue, particularly with respect to the initiation of disputes and the implementation of panel, Appellate Body or arbitrator rulings. Although the implications of power asymmetries are mitigated in the sphere of operation of the DS system, they are not completely annulled; rather, the less powerful states are better-off with the DS system than they would be in its absence in spite of issues inherent to the power asymmetries that still exist. In this respect, the analysis highlights the fact that the implications of power asymmetries that remain unmitigated are in fact
not products of the WTO; instead, they pertain to factors outside its domain – that is, they result from economic asymmetries inherent to the ineluctable differences among states, rather than from the WTO’s institutional design. This distinction, usually neglected in the literature, is crucial to specifying the role of the WTO, and more broadly, to informing analyses of the role of international institutions.

An important aspect highlighted in the analysis is that taking advantage of the opportunities available for both resolving trade disputes through the DS system and building better capacity to litigate trade disputes is incumbent on the governments of, and private actors within, WTO members. Whether and how public and private actors within WTO members make use of the avenues available for mitigating capacity constraints, as well as building capacity, is central to the performance of WTO members in the DS system. Accordingly, given the differences among WTO members in terms of the challenges and aspirations inherent to their domestic political economies, the outcomes of the DS system cannot be treated as deriving from equal motivations and equal internal commitments to pursuing their trade interests. The WTO has no command over, and thus no responsibility for, aspects internal to states that impinge on their capacity to utilize, and level of utilization of, the DS system. Therefore, when studying the DS system analysts must consider that the core challenge to being more active and successful participants in the DS system lies inside WTO members.

Given that the analysis indicates that the DS system plays a role that improves the possibility of changes in the economic condition of less powerful WTO members in relation to their most powerful counterparts, it identifies that the DS system has an impact inconsistent with the view that the WTO favors the most advanced economies. That is so because it imbues the less powerful with greater ability to secure their trade interests, which increases the probability
of transformational changes in the international system inimical to the preservation of the advantage of the most powerful states in the system. This reinforces the notion that such a view of the WTO is inappropriate as it derives from a view of the role of international institutions that is at odds with the role they can play in an open system.

This is further reinforced by the analysis of the second sphere of the WTO that the dissertation addresses, which involves how WTO provisions affect aspects of economic policy pertinent to the prospects for the development of WTO members. The analysis indicates that, although WTO provisions deny some options that were efficacious for earlier developers, the corresponding changes promoted in the developmental landscape do not straitjacket developing countries. Given that the WTO does not kick away the developmental ladder climbed by developed countries as they developed, nor is such a ladder the only possible developmental pathway, the WTO does not take away from developing countries the possibility of developing. Accordingly, the WTO does not impede shifts in the relative economic condition of its members; for this reason, the WTO simply cannot secure the conservation of the distribution of economic power assets. This observation is attested to by many occurrences, such as the fact that on average developing countries have been outgrowing the developed world, and is consistent with the fact that no international institution in an open system can possibly block the possibility of development of any state in the system because so much of what is critical for development rests with the domestic political economy of states.

The fact that the WTO does not impede shifts in the relative economic condition of its members is also consistent with how the security environment at the time of the creation of the GATT did not provide any basis for trading the possibility of absolute gains in general welfare for an attempt to block relative gains in economic power; moreover, this situation has not
changed ever since. A non-critically threatening security environment makes the attempt to block the prospects for development of potential emerging powers practically unviable because it fails to provide justification for the consequential forfeiting of absolute gains. The absence of such a justification signifies that there are no grounds for tying economics and security together in this way; in this context, the fact that absolute gains in private or national welfare are the primary interest in the economic sphere prevails, and accordingly, states are more inclined to focus on absolute gains while being less concerned with the possibility of relative losses. In this perspective, the security environment within which the GATT was created and evolved into the WTO helps explain the WTO’s open character in which interdependent absolute gains for all its members is privileged over relative gains for developed countries.

In light of these considerations about the role of the WTO, if on one hand the lack of precise measures of the impacts of the WTO does not allow for a categorical disavowal of the narrative of the WTO in line with the view of international institutions as tools of the powerful, on the other hand the analyses and their implications nonetheless clearly challenge that narrative, and correspondingly pose a decisive challenge to the realist view of international institutions more broadly. Further research, about the WTO as well as other international institutions, should help in providing further substantiation for these challenges. The dissertation provides the theoretical springboard for such work.

ON FURTHER IMPLICATIONS

In the study of systemic developments, the focus is typically on realized effects, as evinced by the predominance of the methodology of comparative statics in the study of overarching patterns in international relations. However, such a focus neglects a crucial aspect:
the key to understanding the dynamics of the international system lies not simply in examining end results but in identifying the structure of possibilities it embeds and understanding the reasons why certain possibilities are realized and others are not. Both realized and unrealized effects are telling of the dynamics of the system; realized effects are the materialization of just one of many possibilities, whereas unrealized effects do not necessarily signify the lack of possibilities. Realized effects derive from a structure of possibilities, and whether and why (or why not) possibilities are acted on. These two instances of the causal process leading to realized effects (or their lack thereof) – the structure of possibilities and whether and why they are acted on – are central to the understanding of the system. Neglecting the distinction between possibility and realization often leads to equating them, which implicates that the causal sources of realized effects are disregarded and realized effects are treated as if they are the only and necessary ones; consequently, such neglect generates a flawed understanding of the structure and workings of the international system.

As applied to the assessment of developmental performances, the distinction between possibility and realization evinces the centrality of what is behind whether and in what manner states act on the possibilities confronting them. The structure of possibilities confronting a state provides opportunities; whether and how these opportunities are seized affects the ensuing structure of possibilities, and so on. Whereas seized opportunities for economic advancement contribute to both improvements in the state’s economic condition and the transformation of latent opportunities into actual ones, thus having a virtuous multiplier effect, the failure to seize opportunities implicates both forfeiting economic improvements and an opportunity cost involving the failure to expand the state’s array of opportunities, thus having a negative multiplier effect. Besides whether opportunities are seized, the way they are seized matter for the
state’s developmental trajectory. Whether opportunities are seized in ways consistent with improving the state’s engines of economic advancement directly affects its prospects for development. This has implications for the debate on absolute versus relative gains concerns in the international relations literature insofar as, besides shedding light on the causal sources of gains, it highlights that it is necessary to pay attention to the distinction between quantitative and qualitative gains – that is, to the distinction between the size and the nature of gains and their implications. While both are relevant, the latter are more consequential for differentials in long-term trajectories, thereby deserving greater attention from scholars and policymakers. In sum, as it impinges in the state’s developmental trajectory, it matters more what a state does with the opportunities it has than the set of opportunities it has at a given moment. Accordingly, this is central to understanding the relative performances of developed and developing countries.

The distinction between possibility and realization also illuminates the dynamics of international cooperation and its systemic implications. Uncertainty about whether and how opportunities provided by an international agreement are seized, as well as by how complex it is to determine its corresponding impact, determines that negotiations for international cooperation inevitably entail a considerable gap between potential impacts, which inform negotiations, and actual impacts, which are contingent on multiple factors impinging on whether and how the opportunities negotiated are actually exploited. Given such a gap, it is important to recognize that when engaging in international negotiations states are in fact negotiating sets of possibilities rather than concrete impacts. As there are numerous possible combinations of levels of opportunity potentially provided by agreements and diverse extents to which such opportunities might be seized, a concern for the distribution of impacts requires estimates about the latter. Such estimates are crucial as they can be leveraged in the negotiation process, helping states
calibrate the levels of concessions they are willing to accept, and thus maximizing what they might get in return, by enabling them to have a better sense of the actual consequences that concessions might have. For instance, if they know that the probability that the opportunities conferred by concessions they make will be fully exploited is limited, states might be more open to granting higher levels of concessions, which can help them extract higher levels of concessions in return. If it estimates that it will exploit concessions more fully than the other parties in an agreement, a state can in fact be better off even if concessions are perfectly balanced. Therefore, the distinction between possibility and realization has clear practical implications for international negotiations, and must be incorporated accordingly in the study of international cooperation.

These additional considerations further support the importance of thinking situationally about international institutions in particular, and international relations more broadly.
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322


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328


