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**THEORIES OF INTERNATIONAL BARGAINING THE WORLD  
TRADE ORGANIZATION: THE CASE OF AGRICULTURAL EXPORT  
SUBSIDIES ELIMINATION**

Paper submitted to the 2nd Conference on the Political Economy of International  
Organizations

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### **ABSTRACT**

This paper examines existing political science approaches to bridging international and domestic politics in the context of international trade negotiations. I engage with two approaches from the literature used to examine the domestic-international political nexus in international negotiations, Robert Putnam's two-level games and Ronald Rogowski's second-image reversed theory. I will argue that at present, there is no satisfactory theory to guide political scientists in examining the interplay of domestic and international politics in multilateral trade negotiations. I provide a case study which looks at the current WTO agricultural negotiations and the decision to eliminate export subsidies to illustrate the complexity of multiple-actor and multiple-issue negotiations at the WTO. In addition, the paper suggests additional issues which need to be incorporated into theories of multilateral trade negotiations, including the role of non-state actors as potential transnational constituents, the role of negotiating chairs, and the negotiating structure of the Single Undertaking.

### **INTRODUCTION**

At present the World Trade Organization (WTO) Doha round of multilateral trade negotiations is at a critical impasse. After seven years of protracted negotiations most observers contend that the prospect for a successful conclusion to the round in the immediate term is very unlikely. It has become increasingly clear that the success of the Doha round ultimately depends on the success of agriculture. The Doha round called for the further liberalization of agricultural trade emphasizing a market-oriented trading system, stronger rules and commitments to reduce protection and other market

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distortions. Agriculture has proved so contentious because of the divergence in views between developed countries (which are the greatest users of agricultural protection measures) and developing countries (which are argued to have the most to gain from further agricultural liberalization). The major issue in agriculture is whether developed countries will make significant cuts to the annual \$US 300 billion in subsidies they provide to domestic producers. Developed countries had repeatedly stated that the only way they can cut subsidies is if developing countries provide them with additional market access. Developing countries are of the view that doing so would result in a slew of subsidized farm goods from the North flooding into their markets and adversely affecting their farmers, many of which are small-scale and subsistence farmers (over 300 million in India alone). While the agricultural negotiations are seen as a key international political issue, this suggests that it is one heavily influenced by domestic politics.

This essay examines approaches to bridging international and domestic politics in the context of international trade negotiations. I suggest that a systematic way of understanding how domestic and international politics interrelate is crucial for the study of multilateral trade negotiations in political science. In this paper, I engage with two approaches from the literature used to examine the domestic-international political nexus in international negotiations, two-level games and second-image reversed theory. I will argue that at present, there is no satisfactory theory to guide political scientists in examining the interplay of domestic and international politics in multilateral trade negotiations. The paper will be organized as following. First, I will provide a background on agricultural trade and export subsidies. I then proceed to sketch out two-level games and second-image reversed theory. Lastly, I use the recent decision to

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eliminate export subsidies at the WTO as an illustrative example to discuss the theoretical challenges towards building a bridging theory of domestic and international politics in the context of multilateral trade negotiations.

### **AGRICULTURAL TRADE AND EXPORT SUBSIDIES**

Although international trade has been regulated by the General Agreement on Tariffs and Trade (GATT) since 1948, it took almost an additional fifty years to develop specific international trade rules for agriculture. Agriculture was largely excluded from the GATT because of contentious United States domestic farm politics and resistance on the part of the US to delegating any authority of its farm policy to multilateral institutions.<sup>1</sup> Despite calls for greater international agricultural trade disciplines by Canada and Australia throughout the 1960s and 1970s – largely in response to United States dumping of subsidized farm goods in third market countries – no significant changes occurred. In the early 1980s, a farm war ensued between the United States and European Union. Because the United States and EU were rival competitors in what was a shrinking world-market for farm products, this rivalry created an escalating ‘subsidy race’. In response to falling agricultural prices and limited export markets, each country undertook a massive expansion of domestic agricultural support. For example, the United States’ annual expenditures were about \$5 billion in the early 1980s. These ballooned to \$30 billion by 1986 (Swinbank and Tanner 1996: 20). The European Union

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<sup>1</sup> In 1952, the Netherlands launched a GATT panel on US dairy import quotas. The GATT panel found the US measures illegal within the general provisions in the GATT. The US then threatened to withdraw from the GATT, which would have undermined the fragile post-war economic order. To mediate a compromise, the US used its political influence to obtain a GATT waiver on all of its agricultural products and future agricultural policy measures (Grant 2005: 93), essentially ensuring no future external constraints on US farm policy.

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also considerably expanded its farm support programs in the early 1980s, and particularly its export subsidy programs.<sup>2</sup> Export subsidies are government transfers to producers and exporters that cover the gap between domestic and world prices. In practice, export subsidies distort international prices and markets, thus providing states with a key policy instrument to promote export market development, as well as maintain domestic price stability at the expense of increasing world market volatility (OECD 2002). It was this export subsidy race that ultimately precipitated the international reform of agricultural trade (Friedman 1994; Ingerset *et al* 1994).<sup>3</sup>

The eighth round of GATT multilateral trade negotiations were launched in Punta del Este, Uruguay in 1988. While many countries had an interest in the outcome of the agricultural negotiations, the negotiations were driven primarily by the United States and the European Union. As the biggest subsidizers and most powerful states at the negotiations, they largely dictated the terms to the other GATT members. The negotiations were contentious and were not settled until 1992. There was strong disagreement between the United States and the European Union over export subsidies

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<sup>2</sup> Europe's farm support program is centralized under the Common Agricultural Policy (CAP). The CAP was originally designed to help return Europe to self-sufficiency in food production in the post-war period. Similar to the US Department of Agriculture (USDA), the CAP was a crucial instrument in foreign policy because it provided cheap food imports to Western allies. Many contend that USDA and CAP subsidized farming contributed to the debt and food crisis of the 1980s. By artificially increasing productivity through subsidies, this resulted in a glut of commodities on the world market. As the global economic recession was underway in the early 1980s, debt reduced the ability of developing countries to finance food imports, and with a surplus of food in the international market, international farm prices collapsed. This had a more pernicious effect on developing country farmers, who had no recourse to farm support like their Western counterparts.

<sup>3</sup> It became increasingly that agriculture was to be at the core of the new round of GATT in the months leading up to the Uruguay Ministerial in 1988. The United States was the major demander of inserting agriculture into the negotiations. Meanwhile the European Union had some interests in keeping the costs of its farm spending under control, but without hindering the European integration (Grant 2005: 95). This idea of curbing United States and European Union farm spending appealed significantly to other major farm exporters including Canada, Australia, and New Zealand as well as developing countries such as Argentina, Brazil and Thailand. It was these countries that formed the nucleus of the Cairns Group, which was the major advocate for significant farm trade liberalization.

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and whether they would be reduced or eliminated (see figure 1 for a historical overview of export subsidies and multilateral trade negotiations). The outcome of the agricultural negotiations was the Agreement on Agriculture, which came into effect in 1994. The Agreement resulted in modest cuts to domestic supports, the binding and reduction of tariffs, and phased reduction, but not elimination, of export subsidies. On export subsidies, the Agreement required developed countries to cut budgetary outlays by 64 percent and the overall volume of exports receiving export subsidies by 79 percent from 1995 to 2000. Moreover, unlike previous “gentlemen’s agreements” in international trade, the Agreement was of extra significance because it was a legally-binding instrument enforceable under the WTO system of ‘hard law.’<sup>4</sup>

The OECD (2001) has argued that export subsidy reduction was the most significant achievement and effective trade discipline of the Uruguay Round. The export subsidy reductions in the agreement successfully translated into a significant decline in export subsidy levels. Only 25 of the 150 WTO members have export subsidy programs. The European Union accounts for 90% of all reported export subsidies. With export subsidies being the most overt form of trade-distorting support, it was clear that when a new round of agricultural negotiations got underway, export subsidies would again be a key issue. Peters (2006) has estimated that eliminating export subsidies will result in an increase of \$4.3 billion in global welfare gains, primarily for the Cairns Group and developing countries.

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<sup>4</sup> That is, if a WTO member did not meet the commitments undertaken in the Agreement, they could be subject to a panel hearing under the WTO’s Dispute Settlement Understanding (DSU) and exposed to potential retaliation.

	<i>From subsidies war to the end date</i>
<b>1980s</b>	Export subsidy wars between the US and EU
<b>1988</b>	Launch of GATT Uruguay Round of multilateral trade negotiations
<b>1992</b>	US and EU sign the Blair House accord which sets out the main terms of an agriculture agreement
<b>1994</b>	Agreement on Agriculture comes into effect
<b>1995</b>	World Trade Organization is established
<b>1999</b>	Seattle ministerial meeting; Agriculture negotiations scheduled to resume as required by Article 20 of the Agreement on Agriculture; failure to launch a new WTO trade round in Seattle
<b>2001</b>	Doha ministerial meeting round of negotiations are launched; members agree to reduce - with a view to phasing out - export subsidies
<b>2002</b>	Agriculture trade negotiations committee Chair Stuart Harbinson drafts the first draft of modalities; dual track elimination of export subsidies (EU rejects the draft paper)
<b>2003</b>	Cancun ministerial meeting; Chairman Derbez text on agriculture calls for elimination of export subsidies on products of interest to developing countries and reductions in all others; G20 refuses to accept the text and the ministerial meeting fails to produce any advances
<b>2004</b>	In May, EU announces it is prepared to eliminate export subsidies; in July, the WTO drafts a new framework for modalities on agriculture which calls for the elimination of all export subsidies with date to be agreed
<b>2005</b>	Hong Kong ministerial; no further agreement on agriculture issues
<b>2006</b>	New draft modalities set export subsidy elimination date for 2013 (no final agreement on this text)
<b>2013?</b>	End date for export subsidy elimination

*Figure 1* Key events in agricultural export subsidies and multilateral trade negotiations

When a new round of multilateral trade negotiations<sup>5</sup> was launched at Doha, Qatar in 2001, trade ministers called for the reduction, with a view towards phasing-out, of export subsidies as a major objective in agriculture. Agriculture quickly emerged, just as it had during the Uruguay Round, as the most contentious issue in the round.<sup>6</sup> Unlike the Uruguay Round, however, the United States and the European Union were not the only protagonists driving the agricultural talks. Rather, developing countries, and in particular the Group of Twenty (G20) led by Brazil, India and China, have been key players in the agricultural negotiations. Overall progress on agriculture has been

<sup>5</sup> Trade ministers were unsuccessful in launching a new round of multilateral trade negotiations at the Seattle ministerial conference in 1999.

<sup>6</sup> The other negotiations issues of the Doha round include non-agricultural market access (NAMA), services, special and differential treatment, trade-related intellectual property, rules and implementation issues.

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protracted and there remains significant divergence between developed and developing countries in the market access and domestic support pillars.<sup>7</sup> One area, and perhaps the only area, of significant progress in agriculture is export subsidies. Between 2001 and 2003, members had made little headway on the issue of whether all export subsidies were to be eliminated or only those for a sub-set of products. However, in 2004, a significant breakthrough occurred. In May, the European Union Commissioner for Agriculture, Rural Development and Fisheries, Franz Fischler, announced in a statement that the European Union was prepared to eliminate all export subsidies. That year, the elimination of export subsidies was reflected in WTO negotiating text and in 2006, a new WTO draft of agriculture modalities set out that export subsidies would be eliminated by 2013.

## **THE DOMESTIC POLITICS OF INTERNATIONAL TRADE**

Multilateral trade negotiations are studied by economists who focus on the welfare gains of specific trade policy outcomes and by trade lawyers who spend considerable time interpreting the meaning and implication of agreements. By contrast, political scientists have been largely preoccupied with exploring the role of politics behind multilateral trade agreements. When states enter into multilateral trade negotiations, they have to skilfully navigate three key issues: enhancing global market opportunities for producers, minimizing adverse affects on vulnerable industries, and ensuring a mutually-satisfactory negotiated settlement for all parties.

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<sup>7</sup> The agricultural negotiations are divided into three pillars in accordance with a structure outlined in the 1994 Agreement. These include: domestic support, which covers domestic subsidies and farm income programs; market access, which covers tariff and non-tariff measures; and export competition, which covers export subsidies, export credits, food aid and state-trading enterprises.



Making sense of the politics of trade negotiations is complicated by the significant division that persists between domestic and international politics. The gap between domestic politics and international relations is just one of several fault lines of sub-disciplinary division within political science.<sup>8</sup> Some suggest this line of division is artificial because it is largely a result of the ‘academic division of labour’ and drive for specialization and sub-disciplinization, while others contend, such as Kenneth Waltz contended that domestic and international politics are autonomous and irreconcilable (Caporaso 1997: 454; Jacobsen 1996). I suggest that such bridging is both necessary and fruitful, especially in international trade. International relations has mapped out the way in which power can operate in the international system and the role of international organizations in promoting cooperation. Comparative politics provides explanations at the state-level of how interest groups and lobbying influence political outcomes and policy-making, as well as how domestic institutions constrain state and non-state actors.

International economic negotiations have been a key site of scholarly work that seeks to bridge the domestic and international divide. Putnam’s (1993) two-level games and Rogowski’s (1989) *Commerce and Coalitions* are two key works in laying out approaches to bridging the domestic-international politics divide. I have selected these two works to review because each has a particular bearing on international trade negotiations. Two-level games theory was developed in the context of international economic bargaining, while *Commerce and Coalitions* examines how increased openness trade affects domestic political cleavages. I provide a brief review of each of these theories below.

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<sup>8</sup> See Gabriel A. Almond (1988) ‘Separate Tables,’ *Political Science*, 21, 3, for a discussion on political science’s ideological and methodological fragmentation.

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Putnam's two-level game is a theory about international bargaining that seeks to incorporate domestic and international political considerations. The principal actor in a two-level game is the 'chief negotiator' or Chief of Government (COG) who negotiates international agreements. The COG must simultaneously take into account domestic and international considerations. At the domestic level, he/she must address the demands emanating from domestic constituencies, including lobby groups, who are pursuing their interests "by pressuring government to adopt favourable policies", and politicians seeking power, and construct a coalition of support among these groups in order to develop a negotiation position (Putnam 1993: 436). At the international level, the COG seeks to "maximize their own [the negotiating groups] ability to satisfy domestic pressures, while minimizing the adverse consequences of foreign developments" (Putnam 1993: 436). As the name suggests, two-level games consist of two levels: (Level I) bargaining between negotiators and (Level II) discussions with domestic constituents to ratify an agreement.

Negotiations are successful when there is a sufficiently broad 'win-set' to ensure ratification at Level II. Win-sets are defined as all possible Level I agreements and these themselves depend on the distribution of power, preferences, and possible coalitions among Level II constituents (Putnam 1993: 443-446). The possibility of different package deals is important because it recognizes that various outcomes may be satisfactory to domestic constituents – they will, of course, each have their preferences but this emphasizes the underlying nature of trade-offs that occurs in bargaining. Another significant insight that two-level games provide is that the COG is not a passive or neutral actor in bargaining. Putnam (1993: 456-7) argues that the COG seeks to enhance his/her standing in the Level II game (institutions, constituents), and can shift the

balance in favour of domestic policies (since he/she may hold such preferences for exogenous reasons), as well as pursue his/her own conception of the national interest in the international context.

Two-level games provide a useful approach to thinking about international trade negotiations. The ‘Janus-faced’ description of COGs recognizes the inherent complexity of international negotiations and the need to take into account both international (state-based bargaining) and intra-national (constituents and ratification) considerations. As such, two-level games “stands in sharp contrast to the images that privilege either the demands of domestic political constituents or the systemic logic of the national interest” (Moravcsik 1993: 5). Because of these characteristics, two-level games have been used to illustrate the different ways that multilateral trade negotiations interplay with domestic politics (Cooper & Higgot 1993; Patterson 1997; Paarlberg 1997). While these studies represent only a modest amount of work on the WTO using the theory of two-level games (which should not be surprising and is consistent with the fact that the WTO and multilateral trade negotiations remain a very small area of study in political science more generally), the approach has been influential in terms of requiring analysts to look at domestic and international factors, as well as the role of the COG, in multilateral trade negotiations.

However, the two-level games approach has several shortcomings. While the theory behind two-level games claims to bridge international and domestic levels (Putnam 1993; Moravcsik 1993), it overemphasizes domestic factors and underemphasizes international factors. Jacobsen (2006: 1996) suggests that two-level games do not overcome “domestic primacy”; that is, they remain second-image theories

where domestic factors are seen as primary, and thus international factors as secondary, in explaining international bargaining. Caporaso (1997: 574) notes that two-level games fails to adequately address the role of hierarchy in social organization; that is, two-level games fail to understand the parts (domestic and international) of the system on their own terms before combining them. Two-level games are also critiqued for being elite-focused because of its emphasis on the COG. Two-level games requires that we see the negotiations only through the “eyes of the executive,” thus failing to unpack the origins of the COG’s own preferences (Jacobsen 1996: 98). Evans (1993: 427) suggests that the application of two-level games has demonstrated the absence of a systemic historical dimension, which precludes satisfactory longitudinal analysis. Lastly, two-level games only provide a very limited account of the role of ideas in international bargaining. When ideas have been considered, it has been in the context of understanding how preferences and acceptable win-sets are determined (Kahler 1993: 365-366). Goldstein (1989) has argued that ideas played a much more important role in the design of US agricultural and industrial policy after the Great Depression than, by comparison, international structure or pressures on the state from domestic constituents. This suggests the need for scholars to consider the role of ideas in the broader context of international bargaining. For example, once certain ideas are embedded in institutions, these can have an important role in determining in how COGs and constituents alike construct their preferences.

Rogowski’s *Commerce and Coalitions* offers a second-image reversed theory (i.e., international politics structures domestic politics) about the relationship between the domestic and international politics of trade. Rogowski’s starting point is that trade liberalization produces winners and losers. He argues that in general winners will

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support increased trade liberalization, while losers will demand greater protection. Moreover, winners and losers' relative political influence is also affected by exogenous change (i.e., decreasing global transport costs will strengthen pro-trade liberalization groups and weaken protectionist ones). The crux of Rogowski's (1989: 7-8) argument (simplified here for illustrative purposes) is that increasing exposure to trade (whether through tariff policy or exogenous factors) will have domestic political consequences. Increased openness to trade on the whole should result in increasing protectionist demand by agricultural producers and lead to urban-rural conflict in advanced economies with low land-labour ratios and class-conflicts in advanced economies with high land-labour ratios. Thus, his argument is primarily focused on the ways in which changes in openness to trade can lead to significant realignments in domestic political systems and establish new political cleavages and coalitions (or what is often referred to as interest groups). Rogowski's research largely focused on historical cases, although he gave consideration to the post-1948 trading system. In particular, he notes that increased trade openness and expansion threatens extractors of rents (Rogowski 1989: 172).

One critique of Rogowski's work is that it fails to link political cleavages to outcomes. Caporaso (1997: 577-78) notes that while *Commerce and Coalitions* provides a predictive model of political coalitions based on changes in income providing the "raw materials of political movements", there is no further theoretical link to show how such potential groups translate political mobilizations into outcomes. I have some additional comments to make on Rogowski's model. Rogowski's model is an economically deterministic one – he himself admits that at the beginning of the book. As such, it may be most useful to think about his model as one of the politics of adjustment. One

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assumption implicit in Rogowski's work is that political groups will oppose any measure that is likely to weaken their economic interest. The underlying assumption in his work is that all political movements are rational and driven by changes to their economic status. I believe, however, that one could make the same case as Rogowski without such an insistence on a rational-actor model. There may be non-economic considerations as to why political groups may mobilize (e.g., imagined vs. real economic threats, attempts to weaken/strengthen the position of certain candidates or political parties during elections in response to a candidates/parties policy positions, etc.). Another shortcoming in Rogowski's model is that he treats economic sectors too homogeneously. This is partly due to the fact that Rogowski does not include technology as one of his factor endowments in addition to land, labour and capital. The fact that Rogowski does not include technology in his model strikes me as rather surprising. In fact, he treats technological change as an exogenous factor. However, mainstream economists regularly include technology as an endogenous factor in economic models. Technology has a major impact on productivity and labour, and thus on society and politics. In particular, technological change can have major impacts within economic sectors. Firms that are the first to introduce new and more efficient production techniques often gain significant market advantages. This too can lead to winners and losers within an industry. Thus, by treating economic sectors as static, Rogowski does not give sufficient consideration to how relative power shifts *within sectors* may be as an important variable when trying to understand broader changes within cross-sector conflict (which his model privileges) and how this may lead to new political coalitions and mobilization.

In contrast to Putnam's two-level games, the focus of *Commerce and Coalitions* is on how *international economic factors* affect domestic politics and not the interrelationship between international and domestic politics per se. Two-level games are interested in how domestic and international politics interplay within the scope of international bargaining. Rogowski looks at how changes in the international economy affect domestic political coalitions. These two theories are not mutually exclusive. In fact, Rogowski's approach may be quite useful in addressing some of the short-comings that Evans (1993) identifies in two-level games (i.e., lack of systematic historical considerations). For example, in the context of international trade negotiations, one could investigate how one country's existing domestic coalitions have been shaped historically over time by increasing openness to trade (which has been the international trend since the post-war era). Moreover, this analysis would also be very useful in explaining how changes in domestic political cleavages *have affected* national political regimes, and using this, to provide some context to understanding how, or what ways COGs conceive of the national interest.

Both two-level games and *Commerce and Coalitions* contain theoretical strengths and weaknesses. They provide useful, though not exhaustive, approaches to understanding the ways in which domestic and international politics interrelate. In the context of multilateral trade negotiations, two-level games and *Commerce and Coalitions* suggest that we pay specific attention to the chief negotiator, the role of domestic constituencies in ratifying agreements, and how economic adjustment (i.e., winners and losers) has significant political consequences. Of the two theories, two-level games provides a much more comprehensive approach to understanding the relationship

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between domestic and international politics in international bargaining. Although *Commerce and Coalitions* is focused on international trade, it does not speak to international trade *negotiations* in any systematic way, nor are there sufficient theoretical insights applicable to trade negotiations to warrant a similar application to the WTO. Instead, it would be more useful to incorporate Rogowski's model of adjustment into Level II of two-level games, in order to better map out the historical development of the bargaining positions of domestic constituencies. At this point, though, I return to the discussion of the WTO and agricultural export subsidies.

### **DOMESTIC AND INTERNATIONAL POLITICS OF EXPORT SUBSIDY ELIMINATION**

The WTO in general and the elimination of agricultural export subsidies in particular provide an interesting case to examine the link between domestic and international politics in multilateral trade organizations. The WTO with its system of 'hard law', broad jurisdiction over international trade in goods and services, broad membership and built-in system of ongoing negotiations, is the epitome of modern international bargaining. The intent of this section is to discuss how two-level games might shed light on the present WTO negotiations, both at the broadest level and in terms of the agriculture negotiations and export subsidies. From the outset, I recognize that there may be some objections to my approach. It could be argued that since no agreement on agriculture has yet been reached, this study may be inappropriate. While I recognize the validity of such an objection, and that most two-level game analyses are concluded after the final deal is done, I would suggest that a two-level game approach can still be utilized to explain the progression of negotiations (or, in other words, to



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explain the parts that eventually make up the whole). Another objection would be that I am only discussing two-level games in a sub-set of a larger negotiation. I am effectively bracketing and isolating a particular aspect of the WTO agriculture negotiations – export subsidies – from the broader context. Again, while such a point is acute, I do not find this to be particularly problematic. The structure of WTO negotiations is fairly complex and sub-issue analysis is helpful, perhaps even a necessary tool, in mapping things out. Putnam (1993: 446-447) recognizes that negotiations can contain multiple issues, and this could be extended to the approach presented here. My intention is to provide an illustrative case to help map out and consider more broadly the ways in which domestic and international politics play a role (and have their own interplay) in the present WTO round multilateral trade organizations. I use two-level games as a springboard to guide this discussion. My objective is not to use two-level games as a straw man. Rather, it is precisely because two-level games have been such an influential and a powerful concept in thinking about international bargaining that I choose to use it as a guidepost to think through the role of international and domestic politics at the WTO.

It is interesting to note that two-level games are not inherently state-based models of international bargaining. Putnam's (1993: 438-443) stylized scenario is based on two organizations. These organizations can include (though not exhaustively) states, political organizations (e.g., political parties, government committees, etc.), firms, multilateral organizations or non-governmental organizations (NGOs) However, in practice, much of the work using two-level games tends to be at the state level. The WTO negotiations are state-level based negotiations. Only states can be WTO members and engage in or ratify negotiations. The two-level game approach is based on two parties, that is, a bilateral

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negotiation scenario. Thus, by design it is a comparative method of investigation. Most examples of two-level game analysis tends to examine bilateral negotiations, though it is not uncommon for some cases to explore negotiations between three or more states (see *Double-Edged Diplomacy*). However, in all examples of multiple states analysis I have encountered, the cases tended to be compared against a central (or control) state (most often the United States). It is curious that two-level games approaches do not appear to be used in multiple actor settings. This raises some practical concerns about the applicability of two-level games to WTO negotiations. The applicability of two-level games is made problematic because the WTO is a multilateral organization with 150 members, meaning that, in theory, 150 COGs exist in any given negotiation.<sup>9</sup> In practice, not all 150 WTO members are actively nor equally engaged in negotiations. Negotiations are self-organized in smaller groupings (more commonly known as break-out sessions). This is done for reasons of efficiency (based on the impossibility of coordinating highly technical discussions among 150 members) and disparities in delegation technical capacity, resources and staffing (most developing countries have very small delegations while developed countries have very large delegations). The actual practices at the WTO differ from Putnam's argument that participation is largely determined by how states perceive the distribution of costs and benefits (Putnam 1993: 446). Resources and not the perceived distribution of benefits and cost has the most impact in determining which WTO members participate and which don't in negotiations. What ultimately happens at the WTO is that negotiations are conducted by a small sub-set of states (on average

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<sup>9</sup> Many developing countries have special and differential or exemptions from certain provisions. However, the countries must still negotiate for special treatment and exemptions. Agreements may not apply equally to all but must be in practice negotiated and approved by all.

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maybe 20-40 members) and when agreement on issues is reached they are brought back to the General Council (where all 150 members are present) for consideration and subsequent agreement. When issues are highly contentious (as they have been in Doha) the WTO Director General or states themselves will organize smaller groupings of key states (presently this grouping is the Group of Seven which include the United States, European Union, Japan, Brazil, India, China and Australia) to forge consensus.

Neither Putnam nor others have addressed the issue of how two-level games could be adjusted, or even if whether such adjustment would be necessary, for multilateral negotiations which consist of more than two parties. Given that multilateral governance and negotiating is very prominent in the present global political system (i.e., not just at the WTO, but for other international agreements such as the Kyoto protocol, as well as regional organizations), this suggests the need for additional theorizing on how models that seek to bridge domestic and international politics address simultaneous multiple party negotiations.

By adding additional actors to the model, this changes the fundamental nature of the game. In particular, the presence of multiple states has a major impact on how power is distributed between the parties. Most scholars have tried to get past the issues involved in applying two-level games to multilateral trade negotiations by bracketing all but two countries. This approach may have been justifiable for analysis of the Uruguay Round of negotiations (although still problematic) because at the time the United States and the European Union were arguably the most powerful players. However, in the Doha round, this assumption no longer holds true. Developing countries, and in particular Brazil, India and China, which are the leaders of the G20, play an increasingly dominant

role in shaping the agricultural negotiations (Ostry 2006; Narilkar & Tussie 2004). More players at the table has significant impacts on the possible range of win-sets, especially in the case of developing countries who have interests and preferred outcomes that significantly diverge, even possibly conflict, with those of the developed countries.

Putnam does not address how power between states is important in negotiations. He is primarily interested in the distribution of power between domestic constituents (i.e., whether domestic constituents' are homogeneous or heterogeneous), and the power of the negotiator. Putnam's approach to international bargaining is a liberal one which assumes a level playing field, and that parties only negotiate because they see positive outcomes. However, power inequalities play a major role in shaping the outcomes of multilateral negotiations with multiple actors. In fact, it has been such power inequalities that led to coalition building between states, and not just between Level II constituents. Unequal power and inter-state coalitions add an additional level of complexity. Does the development of inter-state coalitions favour certain domestic constituencies over others and does it lead to realignment within existing domestic constituency coalitions? This suggests the need for additional theorizing on how inter-state coalitions impact domestic constituent coalitions.

Ensuring domestic ratification presents a significant problem for the COG in two-level games. I think the issue of ratification is largely overlooked in much work on the WTO. Putnam (1993: 438-439) defines ratification generically as “any decision-process at Level II that is required to endorse or implement a Level I agreement, whether formally or informally.” Ratification is a very complex issue at the WTO negotiations and requires further elaboration. As Putnam argues, different states have different

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domestic ratification procedures (especially so at the WTO with 150 members). What is interesting at the WTO is that COGs increasingly hold greater authority and autonomy when it comes to ratification at the national level. In the case of the United States, the US Trade Representative (the COG in the WTO) has ‘fast-track authority’, which allows him or her the authority to negotiate a deal with minimal congressional oversight. Countries such as Canada, Australia and India enjoy ‘ministerial privilege,’ that is, trade ministers can authorize agreements without having to pass them through national legislatures. Similarly, the European Council receives significant authority from the Council of Ministers to negotiate, although a final deal needs to be approved by the European parliament. Even though COGs have increasing authority, domestic political constraints are still important, as there are bound to be political consequences in the case of a bad deal. For example, when the European Union offered unilaterally to eliminate export subsidies, the French government publicly criticized Commissioner Fischler for overextending his mandate. Yet this did not translate into any backtracking on the part of the European Union. While this suggests that domestic ratification may not play as prominent a role given the increasing authority of the COG, further thinking about ratification in the multilateral context is needed.

Unequal power relations between states also have an implication on ratification. At the WTO, there are formal ratification processes for agreements. Decision-making at the WTO operates on consensus. Consensus at the WTO requires unanimity. We need to recall that in practice, what happens is that agreements are made by smaller groups and then brought back to the General Council for approval (i.e., non-objection) by all members. This suggests that, because only a small number of countries actually

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negotiate agreements, we may need to consider the remainder of the membership as a constituency, that is, they need to be convinced by the relevant COGs that the deal is a good one. This suggests that not all parties should be treated as negotiators, but rather that unequal power and inequalities in capacity and resources do in fact create its own ‘game’ within the WTO. This is important because, as Kelly and Grant (2005: 2) note, the old maxim “that the strong do what they will and the weak do what they must” still applies. This is certainly the case in export subsidy elimination, where the discussions were largely between the European Union, United States, Canada and Australia, and excluded significant dialogue with developing countries. The countries listed above were either providers of export subsidies (European Union and Canada) or were expected to make concessions on other export programs (United States, Australia, and Canada). Essentially, these countries drafted a rough agreement on how they would address export subsidy elimination and provided it to the rest of the WTO membership as a *fait accompli*. The power inequalities at the WTO have led some to suggest that domestic ratification for most WTO members is nothing more than a ‘rubber stamp’ (Kapoor 2006; Bellman and Gester 1996). While it is clear that the nature of multilateral trade negotiations does suggest a declining role for domestic constituencies, I am not prepared to rule them out as an important explanatory factor. This suggests that, in the case of the WTO, there is a need for a better conceptualization of how multilateral decision-making structures and power inequalities between states combine to impact domestic politics and constituents.

Putnam (1993: 446-447) notes that when international bargaining includes more than one issue it results in ‘linkage’ and the further ‘entanglement’ of domestic and

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international politics. When two or more issues are open to negotiation, the COG is faced with “tradeoffs across different issues” and he/she has to consider where to yield and where not to budge (Putnam 1993: 447). Putnam resolves the difficulty of two-issue negotiations by suggesting that win-sets can be mapped out as indifference curves (what he calls ‘political indifference curves’) where “the possibility of package deals open up a rich array of strategic alternatives for negotiators in a two-level game” (Putnam 1993: 448). WTO negotiations are multiple-issue negotiations. The structure of WTO negotiations under the Single Undertaking involves negotiations in multiple sectors (e.g., agriculture, industrial goods, services, intellectual property) with each sector divided into sub-sets of multiples issues. Each negotiation is structured to induce trade-offs and bargaining by creating distinct sub-issue areas or groupings in order to ensure a broad appeal and offer something for all 150 members. Furthermore, under the Single Undertaking, negotiations are not finalized until all sector-level negotiations are completed.

In the case of the WTO agricultural negotiations, these are broken down into three main pillars. These pillars are domestic support (concerned with domestic subsidy programs), market access (tariffs), and export competition (export enhancement programs). In the current round, export subsidies are the central issue in the export competition pillar followed export credits, international food aid, and state trading enterprises. Within the agricultural negotiations, issues are cross-negotiated within and between pillars (what in WTO speak is referred to as ‘balance’ between pillars). Within the export competition pillar, by agreeing to eliminate export subsidies, the European Union was able to secure concessions from the United States on on disciplines on export

credits and food aid, and also from Canada and Australia on disciplines on state-trading enterprises. In this case, each country's COG made a strategic trade-off between an offensive interest and a defensive interest (i.e., the US is willing to scale back the size of its export credit program if the EU eliminates export subsidies). Multiple issue negotiations are also useful for understanding cross-pillar tradeoffs. In the case of export subsidy elimination, the European Union and those countries that made concessions in export competition can potentially translate this concession into greater demands on other countries in other issue areas in the domestic support and market access pillars (i.e., the European Union COGs can say to others 'look, we gave so much on export subsidies, so don't push us too hard on domestic support'). In other words, the more a country gives in one sub-pillar issue-area, the more flexibility it may gain in its negotiation position in other sub-pillar issue areas and across pillars. This is where, at least conceptually, two-level games are very useful, because they require us to think about the parameters in which COG makes decisions to tradeoffs between issues within and between pillars, as well as aggregated to the sectoral level.

Yet there are some practical difficulties with applying two-level games. Rarely are any WTO negotiations just one or two-issue negotiations. Each WTO negotiation is always a multiple-issue negotiation. In agricultural alone, each pillar breaks down into various subsets of issues within each pillar. Moreover, COGs need to take into account special and differential treatment as well as implementation issues in their negotiations. Another key obstacle to applying two-level games is in the process of the Single Undertaking itself. With no deal until there is a deal on everything, the Single Undertaking involves many layers of complexity which cannot be simply bracketed off to



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accommodate the aggregated and simplified approach required by two-level games. Intuitively, there is a lot of appeal to simplifying trade-offs between issue areas in order to use Putnam's approach to two-issue negotiations. However, practically, it is very difficult to do so because there is a complex feedback loop between pillars and negotiations (I illustrate this complexity in figure 2 below).

Because the single undertaking approach ensures that issue-linkage is institutionalized it this results in a very dynamic negotiating process. For the sake of illustration, let's imagine a hypothetical situation where negotiators have agreed on agriculture, services and industrial goods. But several states disagree on intellectual property and refuse to agree. In such a case the WTO negotiations cannot advance. There are many reasons why states would not agree to a specific sectoral agreement, but the perception that the agreement is not sufficient because of their interests in this particular sector or they domestic constituents feel that COG gave up too much in another sectoral negotiation and believe they have the possibility of being compensated by others in the outstanding sector to get the final deal done are plausible. This adds a new level of complexity at Level II. One possibility is that factional behaviour may arise between the domestic constituencies (or factions of domestic constituencies) of different sub-games. While two-level games suggest to us that we need to consider how linkages across issues affect COG negotiating tactics and domestic coalitions, on its own, it does not provide a sufficiently well articulated way to do so for the WTO. Any theory of multilateral bargaining will need to account for the complexity caused by the WTO's single undertaking approach.

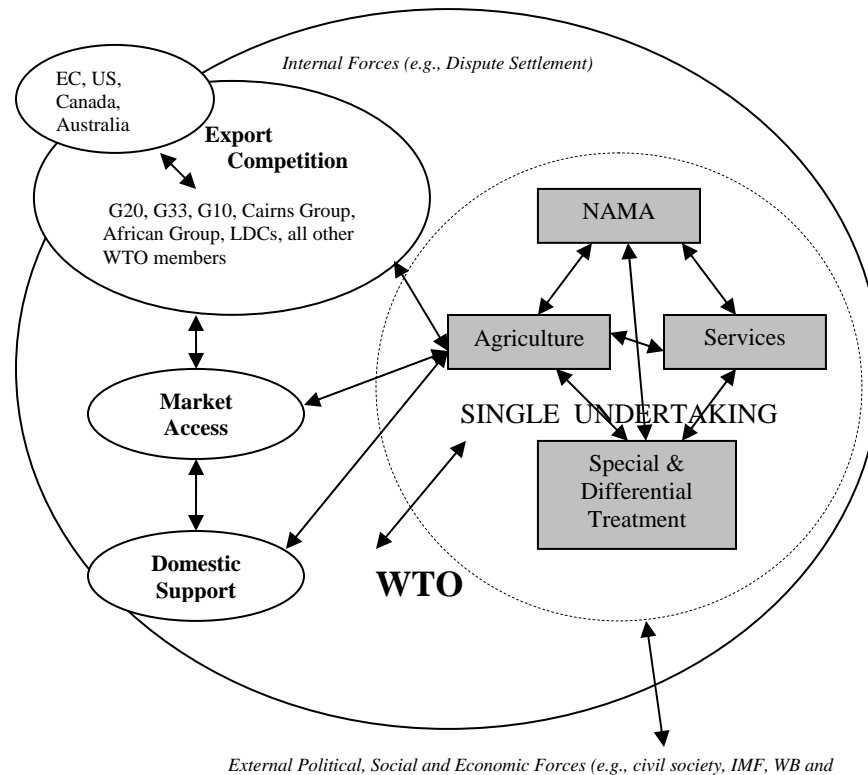


Figure 2 Negotiating complexity at the WTO

Two-level games articulate a nation-state based idea of constituencies. This is largely because of the ‘Janus-faced’ approach to politics which emphasizes international and domestic linkages. Previously, I suggested that, at times, WTO members themselves may in fact be constituents. This needs to be further considered. The actual practices of the WTO negotiations suggest that the main negotiating states also have to convince the broader WTO membership, the majority of which are marginally involved in the detailed technical negotiation, to support the deal. In some cases, this may even involve individual side-payments outside the WTO negotiations. These are issues which need to be further examined and researched since they may have significant impacts on the operation of multilateral negotiations

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To adequately address all the possible constituents that affect international bargaining, it is necessary that we look beyond the nation-state too. Transnational corporations (TNCs), international business lobbies, and international non-governmental organizations (INGOs), as well as other international organizations, are key actors in multilateral trade negotiations (Sell 2006; Williams 2005; Scholte 2002). These actors' activities are not bound by state borders. While these actors have largely been considered in terms of their impacts on international politics, there has been little study of how such actors affect domestic politics and domestic constituencies (i.e., are there feedback mechanisms between international and domestic business lobbies as well between international NGOs and domestic NGOs?). Putnam (1993: 459) does give consideration to what he terms 'cross-table alliances' at Level II and an expanded version of this may provide an illustrative way to understand transnational actors. An analysis of 'transnational constituents' and their impacts and feedback with domestic counterparts may provide a new area for future research on how the relationship between international and domestic politics is affected by such actors in the context of multilateral trade organizations.

Lastly, I want to address two other important issues that two-level games omit, but which are crucial for understanding how multilateral bargaining works at the WTO. Most international negotiations are facilitated by a chair of some sort. In the case of the WTO, the Director General and the Chairs of the negotiating committees are selected by open votes of the membership. These positions are always held by WTO ambassadors. Two-level games assume that COGs are the sole actors in international negotiations. However, WTO Chairs can exert considerable influence on negotiations by framing and

pace the negotiations, by trying to cajole or please certain members, and by seeking an outcome that is (consciously or unconsciously) in his or her national interest as well as in the ‘organizational interest.’

In addition, ideas themselves are particularly important to understanding multilateral trade negotiations. At the core of two-level games, there is an implication that win-sets contain ‘real’ and quantifiable outcomes. In the case of multilateral trade negotiations, the outcome, which assumes a tangible economic welfare gain, are not realized until many years after the agreement. It is true that the economic impacts of certain trade policies can be modelled to ascertain the potential economic costs and benefits. However, the outcomes of multilateral trade negotiations are highly unpredictable, both in terms of the actual provisions of a future agreement as well the economic outcomes that will result. I would contend that ideas are important in the construction of win-sets. At the WTO, there is a strong belief by COGs that trade liberalization leads to improved economic outcomes. For example, we can interpret the European Union’s offer to eliminate export subsidies as not just motivated by domestic considerations (such as the cost of such subsidies to European citizens), but also by the belief that eliminating international market-distortions is itself a desirable objective. The European Union may also use this strategically in order to present itself as a supporter of fair and open trade. For countries such as the United States, Canada and Australia to have made concessions to ensure export subsidy elimination also suggests a strong belief that benefits will accrued, even if they can’t specifically be measured in advance. It is important to note that none of these countries have any guarantee that removing these types of market distortions will actually result in benefits for their producers. What is

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important is that they believe and expect it will. This belief can be attributed to the widespread of neoclassical economics within the WTO community. This suggests that negotiating strategies and outcomes are highly influenced by ideas and not just ‘hard economic facts.’ If ideas have a role in determining multilateral trade negotiations, they should also have a role in affecting the way COGs view domestic constituents. Perhaps pro-trade domestic coalitions may have more influence than protectionist domestic coalitions. This is a different argument from Rogowski’s (1989) who argues that economic power is commensurable with political power, but closer to the argument by Goldstein (1989), as well as with the constructivist paradigm (see Finnemore and Sikkink 2001), which emphasize the role of ideas in shaping government policy and their policy positions.

## **CONCLUSION**

This essay has examined the efforts in political science to bridge international and domestic politics in our understanding of international trade negotiations. The essay has constructively engaged with two theoretical approaches, Putnam’s two-level games and Rogowski’s *Commerce and Coalitions*, that have significant bearing on international trade. Two-level games provide a much better starting point than *Commerce and Coalitions* for studying the interplay between international and domestic politics. However, two-level games, which is a very useful tool for one or two issue bilateral negotiations, does not sufficiently address the unique nature and complexity of multiple-actor and multiple-issue WTO trade negotiations. This suggests that, at present, we

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require additional theoretical work to better understand the way in which domestic and international politics interplay at the WTO. This essay has highlighted some key issues that should be included in such theoretical work, such as the role of non-state actors, negotiating chairs, the structure of the Single Undertaking, and the role of ideas in order to build a systemic approach towards bridging domestic and international politics at the WTO.

## **ACKNOWLEDGMENTS**

I am grateful to Michael Stein and Kristen Hopewell for their incisive comments on the original draft of this paper.

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