

New Pressures on the WTO: The Rise of Illiberal Trading States

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Abstract

Since its creation in 1995, the WTO has become the major institutional pillar of the global economy, a guarantor of market openness and a prominent disseminator of liberal economic commitments. But the rise of new powers such as China, Brazil and India calls into question the durability of its existing policy content and institutional design, as evidenced by the failure of the Doha Round after 14 years of negotiations. This paper argues that the WTO is facing new challenges not just due to the rise of new powers, but due to rising powers' economic constitution as 'illiberal trading states'. Illiberal trading states seek trade integration through market access abroad, but defend their capacity to operate illiberal forms of capitalism at home. The deadlock in the Doha Round therefore not only underscores the salience of power shifts for the performance of international institutions, but also highlights the increased heterogeneity of preferences of the cluster of systemically significant states at the centre of the world trading system. We develop this argument analytically through an analysis of the economic rise and state-society relations of the BRICS countries, and demonstrate its salience empirically during multilateral negotiations at the WTO through an analysis of rising and established powers' revealed preferences during the Doha Round.

Keywords

Rising powers, liberalism, illiberal trading states, World Trade Organization, Doha round

Word count

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Introduction

A central international institution in the regulation of the world economy is the World Trade Organization (WTO). With Russia's accession in 2012, the WTO became a nearly universal international organization, with its rules covering 97 percent of world trade and a similar portion of the world population and GDP.¹ Its more than 60 legally binding agreements, and its monitoring and enforcement capacities, have contributed decisively to the legalization of the international economic order, and have served to lock-in its members' commitments to trade openness.² By entrenching principles of openness, non-discrimination and liberalization, the WTO has become a keystone of the liberal international order that was fostered by established powers in the period since the Second World War.³

Today it is widely acknowledged that rapid economic growth in several large developing countries has changed the political balance within the WTO. Where the governance of world trade was traditionally dominated by the members of the 'Quad' (the United States, European Union, Canada and Japan), the WTO has been affected by the new prominence of emerging economies such as Brazil, India, and China (members, together with Russia and South Africa, of the BRICS club of non-traditional powers). Not only have large emerging economies become far more significant and central to global trade flows,⁴ but the governments of 'rising powers' have become central protagonists in the politics of international organizations. The Doha Development Round of the WTO exemplifies this trend, as reflected in their greater bargaining power, increasing institutional activism, and centrality to developing country coalition formation.⁵ There is little reason to doubt that the countries of the emerging world will have an increasing say over the rules that affect them in future, and that they will

¹ WTO 2014.

² Chorev 2005; Wade 2003; Goldstein, Rivers, and Tomz 2007.

³ Ikenberry 2011a; Gilpin 1987; Cox 1987.

⁴ Fagiolo, Reyes, and Schiavo 2009; Hanson 2012.

⁵ Hurrell and Narlikar 2006; Hopewell 2014.

consequently be increasingly capable of shaping the global economic order after their own preferences. This makes the WTO an interesting test case for the impact of rising powers on international economic institutions.

In this paper we suggest that the WTO is facing new challenges not only due to the rise of new powers, but due to the new powers' political-economic constitution as 'illiberal trading states'. While international power shifts have undoubtedly contributed to disagreement and deadlock within the Doha negotiations,⁶ this deadlock is also a function of the nature of new powers' domestic economic structures. We thus direct attention to the nature of state-society relations within the emerging countries,⁷ and in particular how this manifests in their national economic systems and domestic 'institutions' of capitalism.⁸ In systemic terms, due to the increased economic weight of large emerging countries, the political-economic core of world capitalism has become more institutionally diverse. This increased heterogeneity is a result of two factors: the shifting distribution of economic activity towards emerging economies, and the dissimilarity of those emerging economies to the economic structures of established powers. As a consequence, the preferences and viewpoints that need to be bridged in order to conclude common agreements are further apart from one another. In this view, we agree that we see "a greater divergence of interests, weighted by power."⁹ This is because states seek to make international agreements compatible with their domestic structures. Here, we assess the validity of this argumentation in relation to the WTO. We argue that the deadlock in the Doha Round not only underscores the salience of institutionalized power transitions, but also the increased heterogeneity of the cluster of systemically significant states at the center of the international system. Arguably, the Doha Round of the WTO has become the first (liberal) victim of the rise of illiberal trading states. We doubt it will be the last.

⁶ Narlikar 2007; Baracuhy 2012.

⁷ Moravcsik 1997; Cox 1981.

⁸ For an overview, see Hall and Soskice 2001b; Hancké 2009; Jessop 2014.

⁹ Keohane 2012, 125.

Our argument proceeds in three sections. First, we review existing accounts of the emergence of new powers in the context of the WTO, and develop a theoretical account which emphasizes the salience of domestic economic structures in shaping rising powers' multilateral preferences. Second, drawing on concepts of the 'varieties of capitalism' approaches, we demonstrate features of domestic structures that point to a clear differentiation between emerging, illiberal varieties of capitalism and established, largely liberal varieties. Third, we show how this differentiation has affected the behavior and trade diplomacy of the BICS (the BRICS minus Russia) in the context of the WTO.¹⁰ Drawing on systematic data relating to negotiation positions of G7 and BICS states during the course of the Doha Round, we demonstrate the plausibility of this theory. While the institutional framework of the WTO has become the point of departure for economic development in the 21st century, its rules and content are becoming increasingly contested from within. A conclusion summarizes the findings and points to broader implications for the joint management of a world economy that is both increasingly integrated and heterogeneous.

The WTO, Rising Powers, and the Significance of Domestic Structure

While it has become almost a truism to claim that rising powers are shifting the global power balance and that the world economy is becoming multipolar, the extent and meaning of this shift is debated. There are some who see in the emergence of China, Brazil, India and other major countries a fundamental challenge to Western dominance and the international political and economic order.¹¹ Others emphasize the limitations of the extent of the 'rise' of new players, the common interests in the system that rising powers share with established powers,

¹⁰ We do not include Russia in our analysis, as it acceded to the WTO only in 2012 and has not been able to fully participate in multilateral negotiations.

¹¹ Kupchan 2014; Mearsheimer 2010; Keohane 2012; Gat 2007; Schweller and Pu 2011; Arrighi 2007.

the inherent durability of the existing institutional order, or combinations of these views Ikenberry and Wright 2008; Wade 2011; Beckley 2012; Johnston 2003; Starrs 2013..

In these debates, the WTO has acquired a new salience. International structural accounts apply systemic-level concepts such as balancing, spoiling and co-optation to understand the impact of a shifting power distribution on the behavior of rising powers within international institutions such as the WTO.¹² Consequently, the WTO is identifiable with the traditional story of hegemonic decline, and the challenges this produces for liberal international trade orders, and international collaboration generally.¹³ In essence, these approaches see rising powers' behavior as a function of the international distribution of power. A second strand of literature adopts a process-based approach, and has focused on the negotiation strategies adopted by rising power governments, and how this may have contributed to deadlock in the Doha negotiation process.¹⁴

Other literature focuses on the domestic level. This builds on classical liberal-pluralist theoretical accounts that link domestic and international politics, in particular focusing on the domestic determinants of international preferences.¹⁵ Specifically regarding rising powers and the WTO, literature in this tradition seeks to relate the positions that rising power governments adopt to the presence of particular domestic interest groups such as business associations, unions, or farmers' associations.¹⁶ These studies do not necessarily link rising powers' domestically-derived preferences to deadlock at multilateral negotiations, but they do emphasize the salience of domestic factors in shaping their behavior.

¹² Stephen 2012, 299–303; Baracuhy 2012; Ikenberry and Wright 2008, 25–7; Hurrell 2006, 5–8.

¹³ Lake 1993; Gilpin 2000; Kindleberger 1981.

¹⁴ Narlikar 2010; Narlikar and Wilkinson 2004; Hurrell and Narlikar 2006; Lee and Wilkinson 2007; Wilkinson 2009; Hopewell 2014; Efstathopoulos 2012a.

¹⁵ Putnam 1988; Gourevitch 2002; Moravcsik 1997; Milner 1997.

¹⁶ da Conceição-Heldt 2013a; Schirm 2012; da Conceição-Heldt 2013b; Lilja 2012.

In this contribution, we do not wish to dismiss these explanations, but rather to shift focus to a largely neglected dimension of rising powers: the nature of their ‘domestic structures’.¹⁷ The concept of domestic structure is traceable to work led by Peter Katzenstein in the 1970s.¹⁸ Domestic structures were conceived as relatively enduring internal features of a state’s political and economic arrangements. These structures give rise to domestic interest groups that seek to influence government policy, and constitute the structure of incentives that face government decision makers as they formulate their foreign economic policies. Today, we might refer to domestic structures as being made up of the ‘institutions’ that characterize different national varieties of capitalism.¹⁹ What unites domestic structural approaches is an interest in how enduring features of states’ domestic orders shape their relations to the global economy, and how their national characteristics shape their preferences over the design and content of international institutions.

The focus on enduring domestic structures differentiates this approach from liberal-pluralist approaches rooted in commercial liberal trade theory,²⁰ which emphasize the role of “powerful, sector-specific interest groups” in influencing emerging powers’ trade diplomacy at the WTO.²¹ Rather, emphasizing the role of domestic structure in shaping emerging powers’ trade diplomacy repositions the explanatory account in terms of agency and structure. The domestic structure is an important context variable that both gives rise to these interest groups and shapes the constraints and opportunities that confront public authorities in a given national context. While any largely domestic account will inevitably remain incomplete, we submit that this approach contributes a valuable and relatively under-utilized framework to understand the challenges of joint stewardship of the global economy.

¹⁷ A notable exception is Nölke et al. 2014.

¹⁸ Katzenstein 1977; Katzenstein 1976.

¹⁹ Hall and Soskice 2001a; Thelen 2002; March and Olsen 1989; North 1990.

²⁰ Hiscox 2002; Milner 1997.

²¹ da Conceição-Heldt 2013a, 431.

What are the elements of domestic structures? Peter Katzenstein's formulation of domestic structures examined *state-society relations* as they are inherited in particular policy networks, and he identified societies characterized by liberal (society-driven), statist (state-driven), and corporatist (state-society coordinated) domestic structures.²² Other elaborations of domestic structures have emerged from the 'varieties of capitalism' or 'comparative capitalism' tradition.²³ While all capitalist states share the institutions of the market and private property (otherwise they would not be capitalist), they also have national particularities that generate strong institutional complementarities which can be equally functional to maintain competitiveness in the world economy. The most renowned, and by now much debated,²⁴ framework elaborated by Peter Hall and David Soskice was firm-centric,²⁵ and focused on five institutions that solved economic coordination problems: industrial relations, vocational training and education, corporate governance, inter-firm relations, and employer-employee relations.²⁶ This resulted in the formulation of two ideal types of market economies: liberal and coordinated. The ideal type of a liberal market economy operates by competitive market relations between workers and employers, education systems imparting general and transferable skills, companies are share-holder driven, relations between firms are competitive, and employers have high level of discretion and control over employees. Coordinated market economies, by contrast, rely more on collaborative bargaining between workers and employers, vocational training in specific tasks, stake-holder-driven corporate governance, collaborative coordination between firms, and corporatist consultations between employers and employees.

²² Katzenstein 1985; Katzenstein 1976. A similar separation of 'liberal' and 'corporatist', or 'Lockean' and 'Hobbesian' forms of state, was established in the historical materialist tradition. See Cox 1987; Van der Pijl 1998. Michel Albert also pointed to the tensions between 'Rhine model' and 'neo-American' style capitalisms in Albert 1993, 99–126.

²³ Hall and Soskice 2001b; Hancké 2009; Jackson and Deeg 2006; Nölke and Vliegenthart 2009; Streeck 2010; Schmidt 2002.

²⁴ Which is consistent with those authors' aim to provide "a set of contentions that open up new research agendas rather than settled wisdom to be accepted uncritically." Hall and Soskice 2001a, 2.

²⁵ Conceiving companies as "the crucial actors in a capitalist economy." Ibid., 6.

²⁶ Ibid., 6–7.

In the time since, other frameworks to study capitalism comparatively have been advanced. Opting for a more simplified schema of fundamental features of domestic structures, Uwe Becker discusses ideal types as configurations of two kinds of relations: that between capital and labor, and that between politics and the economy.²⁷ This is largely consistent with Vivien Schmidt's three relations that define different forms of capitalism: business relations (inter-firm, industry finance, and investment), government relations (and state characteristics), and labor relations (wage bargaining and government's role). Different configurations of these domestic structures give rise to the three models of market, managed, and state capitalism.²⁸ Other well-known typologies have been developed.²⁹ As Jackson and Deeg have summarized, "no agreement exists on the number of distinct types of capitalism, or on the dimensions used to characterize the various types of capitalism",³⁰ and Bob Jessop reiterates that "No consensus exists on schemes for exploring the unity *and* heterogeneity of capitalism."³¹

Our ambition is not to synthesize these frameworks, nor do we intend to demonstrate that the rising powers, or specifically BICS in this analysis, cohere in a distinct 'variety' of capitalism.³² Rather, we intend to highlight features of the BRICS domestic structures that differentiate them from the domestic structures of the established, more liberal G7 powers, and to do so in a way that highlights their relevance to explaining the BICS' preferences for multilateral economic regulation, in particular regarding the case of the WTO. For this purpose, the features of domestic structures that shape governments' preferences for international institutions are especially salient.

²⁷ Becker 2009; Becker 2012.

²⁸ Schmidt 2002.

²⁹ Whitley 1999; Streeck 2001; Amable 2003. For overviews of the different frameworks advanced in the literature, see Jackson and Deeg 2006; Howell 2003; Jessop 2014.

³⁰ Jackson and Deeg 2006, 6.

³¹ Jessop 2014, 46; original emphasis.

³² See Nölke et al. 2014.

The concept of domestic structure emphasizes the domestic determinants of international behavior by positing that states seek to “establish a basic compatibility between domestic and international policy objectives.”³³ Because states differ in their domestic structures, they differ in their preferences regarding international institutions.³⁴ Domestic structures become ‘externalized’ indirectly through countries’ political, social and economic influence on the rest of the world, and directly through their governments’ foreign economic policies. The concept of pursuing domestic-international institutional ‘fit’ is also present in Hall and Soskice’s firm-centric theory, which suggests that a state’s stance on multilateral issues will be influenced by judgments about whether those initiatives are likely to sustain or undermine the comparative institutional advantages of their nation’s economy. Governments should be inclined to support such initiatives only when they do not threaten the institutions most crucial to the competitive advantages their firms enjoy.³⁵ Likewise, Kahler suggests that states seek to transfer their national regulatory regimes to the multilateral level in order to minimize compliance costs and to extend their competitive advantages,³⁶ and this is paralleled by historical institutionalist lines of argument, which seek to link preferences over multilateralism to states’ comparative (institutional) advantages endowed by their varieties of capitalism.³⁷

In addition, we submit that the importance of the domestic economic structures of large, developing economies has increased over time. This is for two reasons. First, the diffusion of economic power that has resulted from catch-up growth in emerging economies has brought them new influence in the full range of issues related to international economic coordination. Second, the heightened role of economic denationalization has meant that increasingly, states

³³ Katzenstein 1977, 588.

³⁴ *Ibid.*, 587–8.

³⁵ Hall and Soskice 2001a, 52.

³⁶ Kahler 1995.

³⁷ Fioretos 2001.

have to seek their policy goals in the international arena.³⁸ Under conditions of globalization, “it has become more important for countries to ensure that national and international institutions function in a complementary fashion.”³⁹

Different Domestic Structures, Different Interests: Meet the BRICS

A domestic structures approach to the BRICS suggests that their preferences regarding the WTO will be influenced by their economic institutional comparative advantages. The global spread of some liberal economic policies and ideas is hard to deny,⁴⁰ and practically all varieties of capitalism have moved further towards the liberal ideal type in the last two decades.⁴¹ But empirical evidence suggests that while capital mobility and trade openness have increased, the state has not retreated from economic life,⁴² and there is huge variation in the extent to which major economies approximate the liberal ideal type of the night-watchman state. With nearly all countries in the international system now passing over to some configuration of capitalism, the relevance of capitalist diversity has only become more pronounced. More recent literature has sought to expand beyond the high-income-centricity of the varieties of capitalism approach, and have sought to consider capitalist varieties in post-communist, emerging, and autocratic and patrimonial societies.⁴³

Drawing on existing literature on the economic structures of the BRICS, we argue that the form of their domestic structures are quite divergent from those of the established G7 powers, which has significant implications for the positions they adopt in multilateral economic

³⁸ Hall and Soskice 2001a, 51–4; Fioretos 2001, 239; Zürn 2003; Mattli and Woods 2009.

³⁹ Fioretos 2001, 239.

⁴⁰ Simmons and Elkins 2004; Harvey 2005; Cohen and Centeno 2006.

⁴¹ Streeck 2001, 36; Becker 2009.

⁴² Cohen and Centeno 2006.

⁴³ Nölke and Vliegenthart 2009; Becker 2012; Lane 2005; Schlumberger 2008; Orru, Biggart, and Hamilton 1997.

collaboration. While both the BRICS and the G7 are highly internally variegated,⁴⁴ a relatively clear cleavage separates the two groups in terms of the degree of liberalism in their economic structures, defined as private ownership and market coordination.

More broadly, we qualify the BRICS as *illiberal trading states* due to their high levels of transnational economic integration and the simultaneous preservation of many non-liberal features in their domestic and international economic practices, i.e. non-market coordination and significant public ownership.⁴⁵ In this vein, many authors have associated the large emerging economies with some species of state capitalism.⁴⁶ But as McNally points out, all the major practitioners of state capitalism today are also “deeply enmeshed in the international trading system and practice different degrees of open trading and investment relations.”⁴⁷ This is reflected in high levels of international trade and investment (‘trading states’). At the same time, emerging capitalisms are associated with illiberal domestic economic structures. Illiberal domestic economic structures manifest in symptoms such as patrimonial corporate governance structures, close collaboration between private business and public authorities, high levels of state ownership, regulatory controls, strict investment conditionality, and relatively restrictive trading policies (‘illiberal’). While the BRICS states have become pivotal players in the WTO system, and important centers of trade in the world economy, they remain significantly less liberal than established powers.

An indication of these differences can be seen in the levels of the involvement of their governments in the economies, as indicated by such indicators as the OECD Product Market Regulation index, which measures the extent of non-market coordination in product markets,

⁴⁴ For example, the G7 includes both more liberal (the US, UK) as well as more coordinated (Germany, Japan) market economies.

⁴⁵ We wish to emphasize that we use the term ‘illiberal’ purely descriptively, and do not mean to imply any negative connotations or evaluations.

⁴⁶ ten Brink and Nölke 2013; Bremmer 2008; McNally 2013; Acemoglu and Robinson 2012; Stephen 2014.

⁴⁷ McNally 2013, 38.

and in particular its State Control sub-index (see Figure 1).⁴⁸ The most liberal BRICS member is still less liberal than the least liberal of the G7 countries. And although the members of the groups at the margin are close to each other, the overall comparison of the two groups produces a large and significant difference.⁴⁹ A similar pattern applies also when we consider the BRICS' trade policies. This is shown in Figure 2, depicting six different indicators capturing how liberal the countries' trade policies are. From left to right, these are: 1) the overall trade restrictiveness index, 2) average applied tariffs, 3) average applied tariffs weighted by trade volumes, 4) burdens of customs procedures, 5) taxes on trade, and 6) the prevalence of non-tariff trade barriers (the order of countries in the chart reflects the overall trade restrictiveness index). Although a bit more nuanced, especially with respect to the trade policies of South Africa, across all these indicators we observe a clear pattern of less liberal policies applied by the BICS countries than the G7 group countries. Note that although commercial policy is an exclusive Union competence within the European Union, we report the G7 EU members individually as there is variation across them on some of the indexes (e.g. customs procedures burden). We apply this practice of taking the four EU members of G7 individually throughout the article, also in the analysis of their statements in the WTO.

⁴⁸ The Product Market Regulation indexes measures generally “the degree to which policies promote or inhibit competition in areas of the product market where competition is viable”, while the more specific State Control sub-index assesses the level of public ownership of enterprises and the government involvement in their operations. See OECD 2014.

⁴⁹ Across both the indicators, the difference between the two groups is statistically significant at alpha level of 0.05 or lower, although obviously statistical inference is very problematic with as small a sample as N=11.

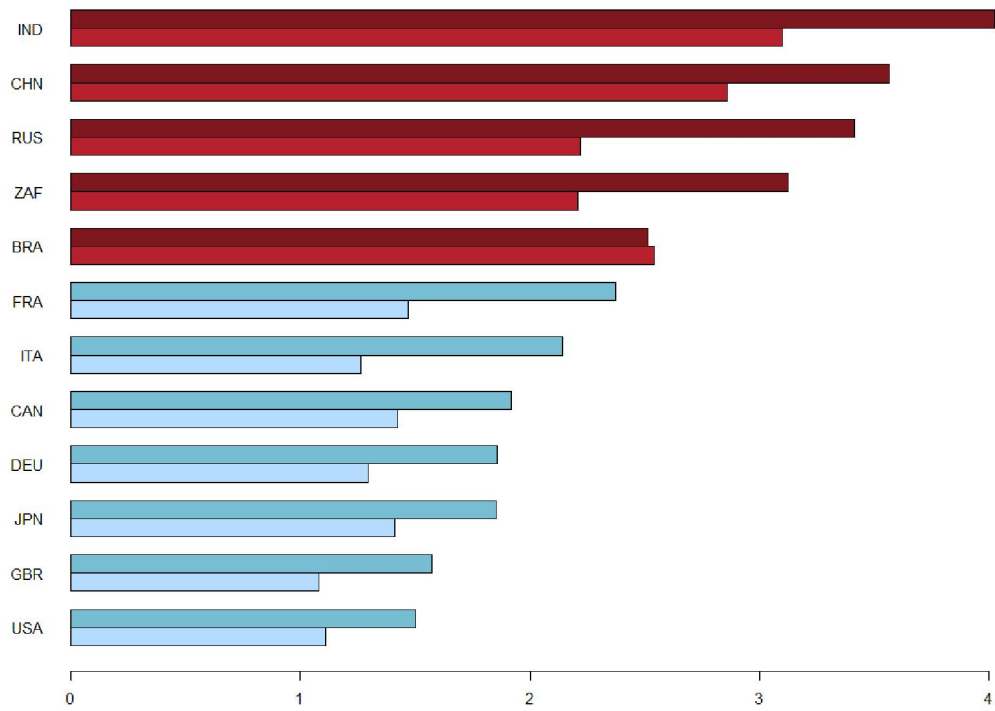


Figure 1: G7 versus BICS countries, OECD Product Market Regulation (top) and State Control (bottom) Index

Sources: *OECD StatExtracts, Product Market Regulation (top) and State Control.*⁵⁰

⁵⁰ Data sources available at the OECD StatExtracts website. OECD 2014.

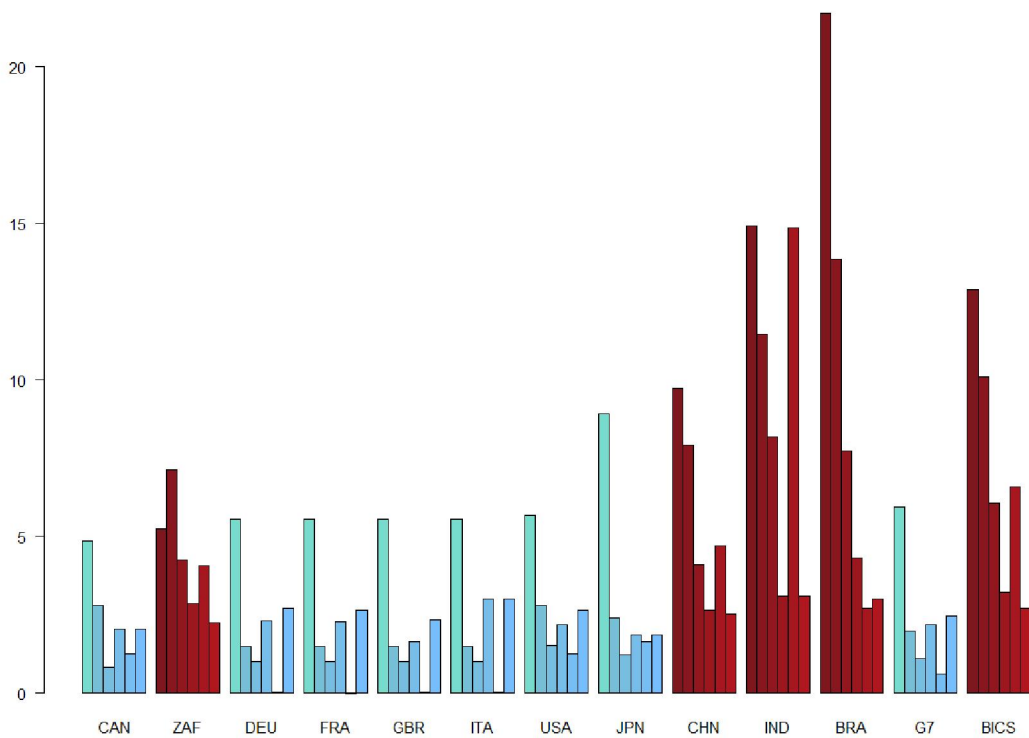


Figure 2: G7 versus BICS, Overall trade restrictiveness index [0-100], average tariff [0-100], average tariff weighted by trade volume [0-100], customs barriers [1-7], import taxes [0-100], non-tariff barriers [1-7].

Source: Tariff and tax data from the World Bank’s World Development Indicators, data from 2012 or closest year. Customs and non-tariffs trade barrier index data from the World Economic Forum’s Global Competitiveness Report, data from 2014. Overall Trade Restrictiveness Index of the World Bank (2014), data from 2009.⁵¹

The distinctive characteristics of illiberal trading states are manifest in at least three other features of their domestic structures relevant to the policy field of the WTO. National innovation and technology transfer systems tend to favor practices of ‘reverse engineering’ and weak intellectual property rights enforcement, driving their ‘catch-up’ modes of technology transfer through neo-mercantilist acquisitions.⁵² The BRICS countries have all been criticized for acquiescing to intellectual property rights infringements, which “ranges

⁵¹ Data sources available at: World Bank 2014b; World Bank 2014a; World Economic Forum 2014.

⁵² Sell 2003; Nölke 2011.

from rampant to merely widespread.”⁵³ This not only conflicts with the liberal enforcement of property rights underpinning the TRIPS Agreement, but raises questions about the willingness for emerging powers to subject their competition policies to WTO jurisdiction. Similarly, transparency in government procurement is unlikely to be a priority for countries that have been identified with interventionist procurement policies.⁵⁴ Governments tend to be especially large customers in emerging markets, and can use interventionist procurement policies as development tools that potentially limit import competition. Market access abroad is unlikely to be adequate compensation for relinquishing *de facto* industrial policies. Finally, the BRICS are also characterized by relatively brittle domestic structures. By this we mean that, lacking capable welfare states, the emerging economies are more strongly dependent on traditional mechanisms of ‘interface management’ to deal with international economic volatility, such as trade barriers, capital controls, and activist industrial policies.

Although we speak of the BRICS as illiberal trading states, we understand liberalism and illiberalism as a continuum. All emerging powers are liberal to some extent, due to them having adopted capitalist paths to development (which is liberal by definition). What is striking, however, is the extent to which the cleavage between ‘established’ and ‘emerging’ powers coincides with a ‘liberal’ and ‘illiberal’ cleavage in terms of political-economic structures. While coordinated forms of capitalism in Europe and Japan have also historically challenged the Anglo-American liberal model, they did so largely under American tutelage and suzerainty, and at no stage did they have the potential to rival American economic preponderance or control in the way that the BRICS have collectively achieved.⁵⁵ Consequently, a shift in international power is accompanied by a relative de-liberalization of the world economy.

⁵³ Bird 2006, 317.

⁵⁴ Krizic 2014.

⁵⁵ McNally 2012, 744.

We therefore agree that China and several other emerging states have strong illiberal features, with strong intervention in their economies that, in letter or in spirit, may go against the norms and rules of liberal international institutions.⁵⁶ However, we doubt that emerging countries are likely to simply internalize the international regulatory agenda of liberal governance through the formation of pro-liberal domestic coalitions. Rather, the possible consequences for the nature of the world trading system seem to be profound. Ian Bremmer, for example, has seen the resurgence of state capitalism as a potential threat to the core norms of “free trade and open markets”,⁵⁷ and Charles Kupchan suggests that while China has joined the WTO, its practice of state capitalism will lead it to challenge the liberal norms and rules as its power grows.⁵⁸ Similarly, Nölke and others suggest that in light of the emergence of ‘state-permeated market economies’, the global economy may have a less liberal and more mercantilist future.⁵⁹ The domestic structural approach suggests that, as economies with a large role for the state, the BRICS will seek to preserve ‘policy space’ for the state to manage integration with the world economy.

BICS and G7 in Multilateral Negotiations at the WTO

To demonstrate the validity of our argument, in this section we present empirical evidence on rising powers’ (BICS) behavior within the Doha round of multilateral liberalization negotiations. Here, we leave Russia out of this part of the analysis as it only accessed the WTO in 2012. As a result, not enough reliable data on Russian position in the negotiations is available. While we focus on the Doha round and the WTO only, we believe the Doha

⁵⁶ Snyder 2013.

⁵⁷ Bremmer 2009, 41.

⁵⁸ Kupchan 2014, 256.

⁵⁹ Nölke et al. 2014.

negotiations exemplify the potential for a more widespread erosion of important liberal tenets that have come to characterize global economic governance.

Emerging powers are becoming ever more important for the global trading system, although there are important nuances. In total, in 2013 the BICS accounted for around 18 percent of world exports, of which two thirds were contributed by China alone. In fact, the export performance of some of the countries is surprisingly small, with India and Brazil exporting only around as much as Belgium. What is more impressive, however, is the growth rate at which BICS have been catching up with the developed world. While in the mid-1990s the BICS's exports constituted only around 11 percent of those of the G7, in the early 2010s – only 15 years later – it grew to more than 42 percent. In other words, as of today, the G7 group constitutes only a little more than twice as significant an actor as the BICS group,⁶⁰ and the share of BICS has more than tripled over 15 years.⁶¹ China became the world largest exporter of goods around 2009 and the largest trader (including imports) in 2014. Its yearly exports of goods have amounted to more than 2 trillion US dollars for several years now, with the United States and Germany at around 1.5 trillion each. So while the total values still speak strongly in favor of the developed world, the trends and their magnitude supports the view that the BICS countries, and most importantly China, have already become important systemic players in the world trading system, and that their relative position is strengthening quickly. Moreover, this growing heft is only reinforced by the institutional activism and centrality of countries such as Brazil and India in the institutional machinery of the WTO itself, despite their relatively small trade shares.⁶² If our argument is correct, we expect that these countries' preferences will diverge from established powers in a less liberal direction,

⁶⁰ World Trade Organization 2013.

⁶¹ One should be careful when interpreting the numbers, however, as the trend cannot be attributed to all BICS members equally. South Africa has barely increased its share on exports over the last 15 years.

⁶² Efstathopoulos 2012b; Hopewell 2014; Hurrell and Narlikar 2006.

and that this cleavage will be especially vivid in areas that potentially affect their illiberal, state-led growth models.

Data and Methods

To test these propositions, we examine country positions in debates over multilateral trade liberalization. We assume that the statements government representatives make during multilateral negotiations reflect the constraints endowed by their domestic socio-economic structures. Moreover, because the statements are public and recorded in the media, they ought to reflect the composition of a state's societal interests; otherwise they would impose political costs on the speakers back home. First, we provide evidence on the positions of BICS and G7 countries in the Doha negotiations, showing that the emerging economies—quickly rising in their relative power positions in the system—tend to adopt less liberal positions than the developed countries. Second, we give this overall pattern clearer meaning by decomposing the states' positions into individual areas of negotiations, in particular differentiating the areas of classical market access from new issues of 'deep integration' through policy and administrative harmonization. Increasingly, trade integration requires 'positive' rather than merely 'negative' integration.⁶³

The so-called 'Singapore issues' were identified by established powers in 1996 as the next phase for global multilateral trade liberalization. These pertain to four areas. The first was meant to deal with the relationship between trade and investment, in principle with the protection of the investment against arbitrary behavior by the host country government. The second issue was that of competition policy, whereby the ability of governments to arbitrarily select their local champions for support should have been constrained. The third Singapore issue—government procurement—was meant to restrict, if only partly, the ability of the

⁶³ Scharpf 1996.

governments to prioritize local or national producers for the supplies of the often considerable public investments and government spending. Lastly, the fourth Singapore issue of trade facilitation was meant to deal especially with bureaucratic obstacles to trade, such as customs procedures.⁶⁴ The Singapore issues all deal directly with the ability of the governments to pursue their objectives through interventionist economic policies or, in the case of trade facilitation, with the way their internal administrative procedures are set up. In other words, the Singapore issues would extend liberal market disciplines onto important areas of domestic economic regulation.⁶⁵ As we show empirically, it is in these ‘domestic structure’ areas that the rising powers are most illiberal. Indeed, of these four areas only the last one of trade facilitation is still on the Doha negotiations agenda, the other three had to be dropped in 2004 upon insistence by the key rising powers.⁶⁶ As a result, while there seem to be a balance across BICS and G7 in the classical international trade matters, when it comes to the regulation in new areas and to ‘21st century economy’ issues, the disagreement among the key players is profound.

The evidence we present is based primarily on a new dataset of coded statements of WTO members’ ministers at the Plenary Sessions of biennial Ministerial Conferences. The dataset covers all G7 and BICS members. At each WTO ministerial meeting, almost each member’s minister delivers a speech in which he or she identifies the state’s position on WTO matters. At least since the Seattle ministerial in 1999, the dominant theme in all the statements has been the Doha round of negotiations and its preparation, i.e. the legislative leg of the WTO. In assessing the states’ positions on the issues under negotiation, we manually coded all the available speeches from years 1996-2011, identifying all the segments of text where the ministers made *political claims* referring to the individual areas of negotiation.⁶⁷ Our unit of

⁶⁴ Evenett 2007; Wilson, Mann, and Otsuki 2005.

⁶⁵ Khor 2003.

⁶⁶ Matsushita, Schoenbaum, and Mavroidis 2006.

⁶⁷ Koopmans and Statham 1999; De Wilde, Koopmans, and Zürn 2014.

coding is defined as a ministerial statement that articulates a position with regard to the adoption of a new regulation in the given area of trade relations. This can be a call for the adoption of new regulation that will lead to significant trade liberalization or, alternatively, for the need to keep policy space as open as possible for government intervention (leading to no additional liberalization, compared to the status quo). Claims range in their length from as little as one sentence to as much as several paragraphs. In addition, one segment of text may contain two or more claims, provided that several areas become the object of the claim. Specifically, we located the states' positions on a scale from 0 to 4. A value of '0' refers to the preference for status quo where no new policy-space restricting regulation is adopted. A value of '4', in turn, signifies a preference for complete liberalization of the given area and hence for the creation of deep new regulation drastically reducing governments' policy options set. Values '1', '2' and '3' represent compromise positions. An overview of the coding scheme is presented in table 1 in appendix. We coded four key areas of the negotiations: 1) non-agricultural market access (industrial goods, so-called NAMA), 2) agricultural market access, 3) services market access, and 4) the Singapore issues.⁶⁸

As an example, the following statement by the French Minister for the economy, finance and industry at the 1999 Seattle ministerial conference was coded as pertaining to agriculture and received value '1' in our coding (emphasis added):

As far as agriculture is concerned, we wish to keep the tools developed at Marrakesh, including the “boxes”, *the special safeguard clause or the peace clause*; treat all forms of support in a balanced way and take into account the *multifunctional dimension* of modern agriculture.

⁶⁸ We exclude from our analysis issues on which we would expect systematic differences between developed and developing countries, such as implementation, special and differential treatment, or the package for least-developed countries. Our arguments should apply regardless of level of economic development.

On the other hand, the following statement regarding agriculture by the Chinese Minister of Commerce received value ‘3’ (emphasis added).⁶⁹

We hold that agriculture is *right at the core* of the new Round. The current stalemate cannot be broken nor can the overall negotiations be pushed forward unless developed Members with *high subsidy, high support and high tariffs* make *major and substantial reduction commitments*. Negotiations on all the three pillars should proceed in a balanced way.

In this way, we coded statements from eight ministerial sessions for each of the eleven BICS and G7 members, obtaining proximate positions of the countries on each of the four main negotiation areas.

There are two important limitations of the data used, however. First, most ministers do not mention all the topics on all the conferences, in fact mostly only several are mentioned each time. Consequently, to obtain a reasonably complete dataset of positions, we work with aggregates across the entire period of 15 years, 1996-2011. This is in any case consistent with our analytical interest, which concerns relatively long time frames. Second, an obvious disadvantage of the dataset is that the coding procedure is never perfectly precise, and is always to some extent a matter of interpretation. In order to assess our coding scheme reliability, we conducted an inter-coder reliability assessment where we randomly selected one country from the BICS group and one from G7 to be independently re-coded by a research assistant. The results of the reliability assessment reflect the partial subjectivity of the coding on the level of individual statements but also the fact that the subjectivity tends to disappear when aggregated data are used, as in our case. On the level of individual ministerial statements, the Krippendorff alpha, ranging theoretically from 0 to 1, reaches a satisfactory

⁶⁹ On the technical level, the coding scheme reflects the coder’s answer, based on his/her reading of the ministerial statement text, to the following question: [According to the statement by country X,] should deep new regulation be adopted in the given area, leading to the restriction of policy space and to significant trade liberalization? Code value 0 indicates the answer ‘strongly disagree’, while value 4 indicates answer ‘strongly agree’. The intermediate values 1, 2, and 3, indicate answers ‘disagree’, ‘neither agree nor disagree’, and ‘agree’, respectively. See table 1 in appendix for an overview of the coding scheme and for more concrete examples.

level of 0.84 when the variable capturing WTO members' positions is treated as being measured on interval level (and 0.7 when treated as ordinal-level variable).⁷⁰ On the other hand, at points the two coders disagreed on whether a code indicating a pro-liberalization stance should be at all assigned, so for one coder an indication of preference was present in the text while for the other coder it was not clear enough to assign a specific code. Hence, we need to stress that in our eyes the coding procedure is not reliable enough to warrant a direct use of the individual statements, for instance for the creation of panel data. On the other hand, the inter-coder reliability assessment gives very strong results when each country's aggregate data (averages) across all the ministerial conferences are considered. Here the Krippendorff alpha reaches a level of 0.98 (interval-level treatment) and 0.85 (ordinal-level treatment). For these aggregated data, the average difference of the two coders' assessment of countries' positions amounts to 0.15. We deem such a difference, on a scale between 0 and 4, more than acceptable, especially given that only aggregate values are used in this particular analysis. In sum, in our data collection we attempt to identify the position of each of our WTO members on the key four topics of the negotiations – trade in industrial goods, agricultural goods, and services, and the Singapore issues. This allows us to calculate a simple average of each state's positions across the four areas of multilateral trade liberalization.

Results

In light of the rapid emergence of the BICS to a key position in the WTO, which positions the rising powers adopt becomes increasingly important. We find that emerging powers are not the major *demandeurs* of overall trade liberalization. In Figure 3, we plot the position of each of the major powers on the 0-4 scale of overall support for trade liberalization. The picture

⁷⁰ We used the {irr} library of the R package to calculate the Krippendorff alpha values, see <http://cran.r-project.org/web/packages/irr/irr.pdf> [last access 10. 11. 2014]. For discussion of the measure, see Krippendorff 2004.

indicates that the G7 countries (light blue) are in total more liberal, with the average value for G7 being 2.8 and for the BICS countries 2.0.⁷¹ The existing difference reflects the highly pro-liberalization positions of the G7 countries in trade, especially in industrial goods and services. On the other hand, in agriculture the G7 members tend to be more protectionist than the BICS countries. This is very significant in the cases of France and Italy with large traditional agricultural production and of Japan with high food imports dependence and the associated potential food security risks. In other words, the higher support for industrial liberalization among the G7 members is partially outweighed in this overall picture by agricultural trade.

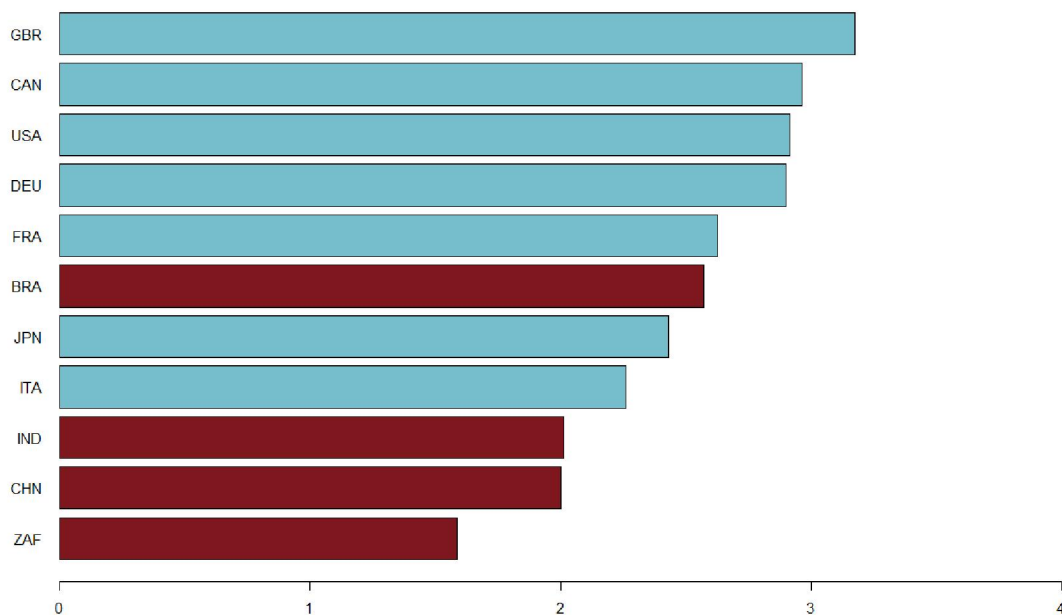


Figure 3: Overall support for trade liberalization in Doha negotiations, BICS and G7 countries

To get a more nuanced picture, we decompose these aggregate statistics into the individual negotiation areas of classical trade liberalization – industrial goods, agricultural products, and

⁷¹ With $t = 3.00$ and $N=11$, the difference is statistically significant at alpha-level of 0.05. The interpretation of this result in terms of statistical inference is obviously problematic due to the low number of observations.

services. Figure 4 indicates the positions of the G7 (left) and BICS (right) groups across all the three areas in box plots.⁷² We can clearly see that in industrial production and services the G7 members have significantly more liberal positions than the BICS countries, while in trade with agricultural products it is the BICS who favor greater integration.⁷³ Moreover, both groups' positions are highly convergent in their major areas of offensive interest. On the other hand, the positions of BICS seem to be less cohesive in industrial goods and services, and those of G7 in agriculture. The high spread of the G7 positions in agriculture captures the divergence of the interests of countries such as Germany, the United Kingdom, or especially Canada on the one hand, and France, Italy, and Japan on the other.⁷⁴ In the traditional market access issues, the differences across G7 and BICS are not particularly salient or systematic. Overall, the difference across the groups is not large, each of the groups and each of the members has some natural offensive and some defensive interests.

⁷² The positions indicated are not weighted by members' power (market size); they constitute the raw position values. Note that the horizontal line indicates the median position, with the distribution of the values captured by the size of the boxes and of the vertical T-shaped lines ('whiskers').

⁷³ See the notes below the individual charts for values of two-tailed t-tests. Some of the tests indicate a statistically significant difference between the groups, but the interpretation of the results in statistical terms is problematic due to the low number of observations.

⁷⁴ Conceição-Heldt 2011; Potter and Burney 2002.

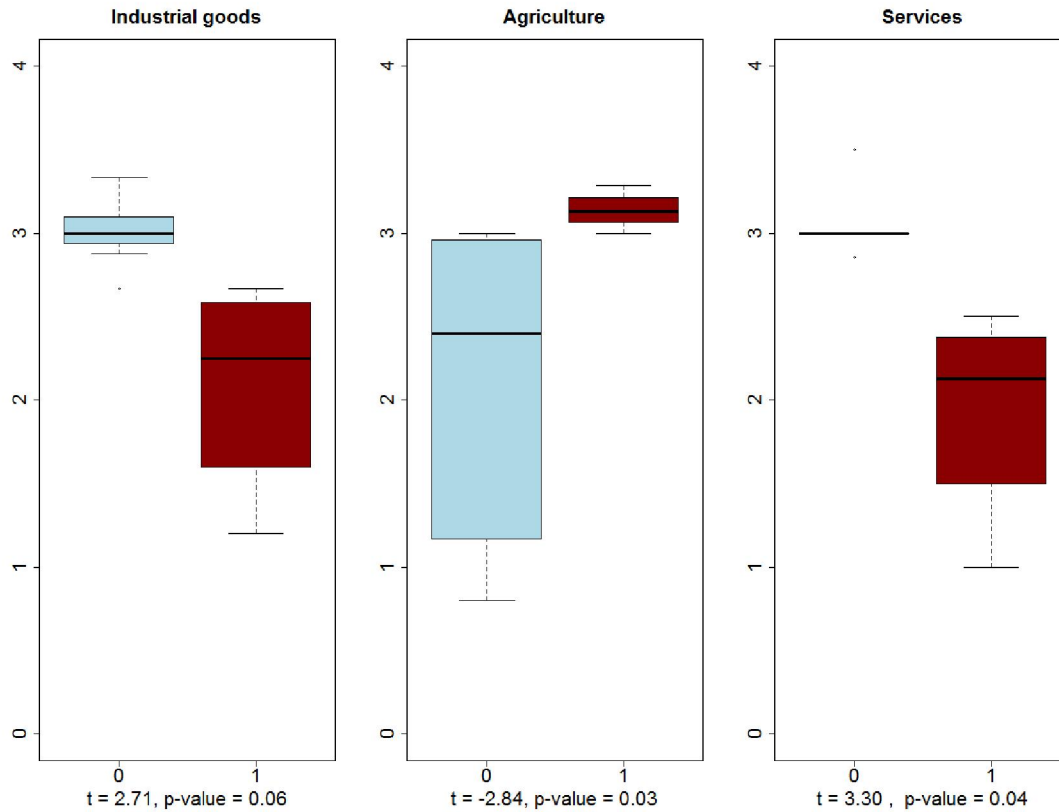


Figure 4: Comparison of G7 and BICS groups' positions across negotiation areas

This is also clearly visible in how the states justify their positions. In stating their views for example in industrial production, the rising powers do indeed argue by referring to the need of policy space in their pursuit of developmental industrial policies. This, however, is matched by most developed countries' insistence on the poly-functional nature of agricultural production.⁷⁵ To see this, consider the chart in the left part of Figure 5. This chart summarizes all the three areas covered above. For each country, it calculates its average position on these classical market access questions. The box plot then again compares the positions of the two groups. We can see that the difference between the groups is substantively (and statistically) very small; the G7 countries (left) are only marginally more liberal.

⁷⁵ Dibden, Potter, and Cocklin 2009; Potter and Burney 2002.

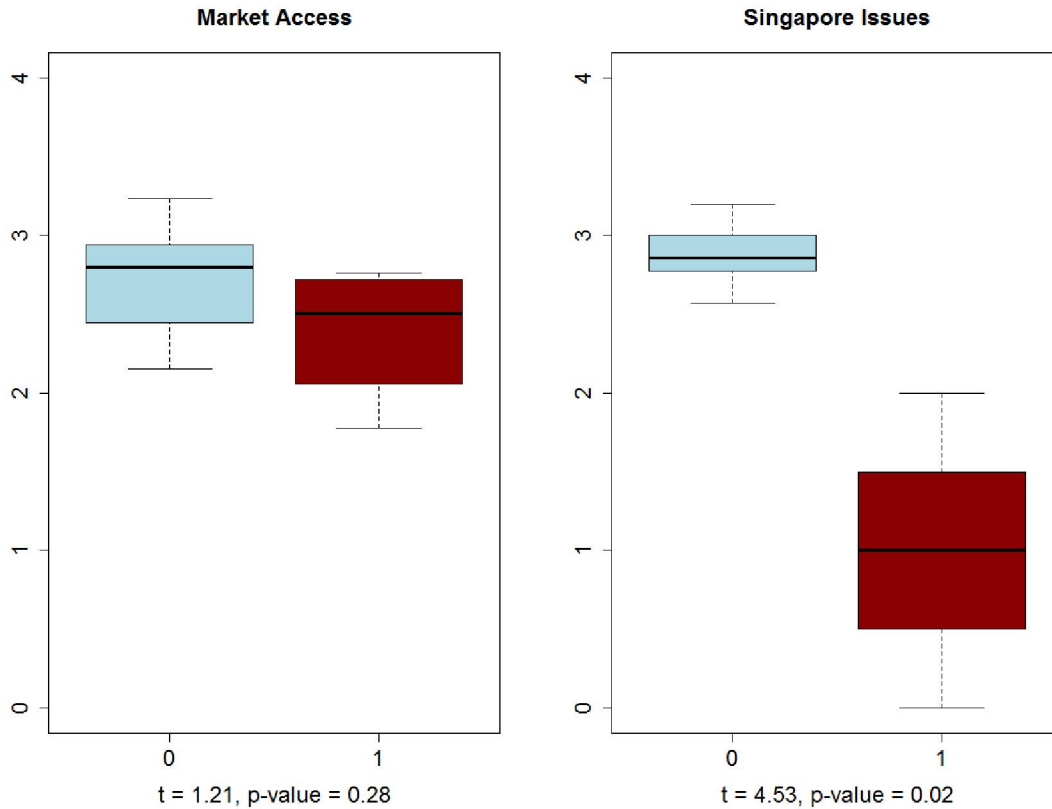


Figure 5: G7 and BICS countries, market access versus Singapore issues

This is in stark contrast to the groups' positions on the Singapore issues, where the differences in positions of G7 and BICS countries are strong and consistent. The mean values of the support for liberalization in these areas are 2.88 for G7 countries and 1.0 for BICS. Especially India, but also China and South Africa, have been strictly opposed to the inclusion of the Singapore issues in the Doha agenda, and have argued throughout the round that no advancement on most of the Singapore issues is desirable.⁷⁶ Indeed, of these four areas only the last one of trade facilitation is still on the Doha negotiations agenda, the other three had to be dropped in 2004 upon insistence by the key rising powers.⁷⁷ The only remaining Singapore

⁷⁶ Khor 2003; Woolcock 2003; Evenett 2007.

⁷⁷ Matsushita, Schoenbaum, and Mavroidis 2006.

issue under negotiation is trade facilitation, by far the least contentious one, pertaining mostly to customs procedures and the bureaucratic ‘costs’ paid by the importers at the borders. Interestingly, even this supposedly non-conflictive agenda of trade facilitation has become an issue of conflict at the Bali ministerial conference in 2013.⁷⁸ While it is possible that the opposition of some of the developing countries against the trade facilitation agreement was used as a bargaining chip to be used in other areas of negotiation than as a matter of their substantive interest,⁷⁹ the same clearly cannot be said about the three other issues – transparency in public procurement, trade and investment, and trade and competition. Precisely because the BICS, as well as other developing countries, have insisted that the Singapore issues are excluded from Doha agenda, they cannot be seen as bargaining chips for them anymore. The opposition against these intrusive measures has been very strong and sincere.

All the four Singapore issues are of course indirectly related to the problem of market access, as the regulation within these areas was meant to ensure that importers enjoy equitable treatment as domestic producers. However, had they been adopted, they would cut to the core of the functioning of the rising powers domestic economic structures. Especially the first three issues constitute important components of the domestic political-economic structures as they directly influence the governments’ ability to engage in activist economic policies, preserving their policy space.⁸⁰ Transparency in public procurement would ensure that foreign importers can compete with local produces in BICS on equal footing. Trade and investment and trade and competition measures might effectively prevent the BICS governments from being able to use activist industrial policies, while pursuing their political and economic objectives.⁸¹ Quite clearly, the Singapore issues are not about the ability of the governments to support specific

⁷⁸ Wilkinson, Hannah, and Scott 2014.

⁷⁹ This seems to be true especially when it comes to agriculture and the food security problem raised in by India and the G33 group.

⁸⁰ Woolcock 2003; Matsushita, Schoenbaum, and Mavroidis 2006.

⁸¹ Khor 2003.

target industries of their choice, but rather would restrict the ability of the political systems to pursue their economic targets through means of political intervention. The issues are cross-cutting, not industry or sector specific. As such, they represent both the final frontier for multilateral liberalization as well as a challenge to the internal political-economic structures of the large emerging economies and their limited focus on the ‘old issues’ of trade integration. This has put the two on a collision course from which the Doha Round is unlikely to recover.

Conclusion

This article has argued for the relevance of emerging economies’ domestic political-economic structures in shaping their orientations to the Doha Round of negotiations specifically, and to the liberal thrust of economic globalization more broadly. The BICS constitution as ‘illiberal trading states’ has made them strongly reluctant to embrace the transition to a phase of multilateral ‘deep integration’ that would require costly and contentious alterations in their internal orders. From this point of view, they do pose a challenge to the liberal economic order that has been fostered by established powers over the previous decades. On the other hand, it is also apparent that the BICS’ development paths have become increasingly reliant on the basic institutional structures of the multilateral trading system and the opportunities for market access that this provides. While there may indeed be a basic shared understanding between the major powers that “a global economy accessible to all can be agreed upon easily as a public good[,]”⁸² distributional conflicts over the burdens of liberalization and basic disagreements over appropriate forms of international economic regulation have proven sufficient to derail the multilateral liberalization process.

⁸² Germain 2009, 687.

The rise of illiberal trading states can be interpreted as a contributing factor—along with several others⁸³—to the breakdown in the Doha Round. A prominent Brazilian trade diplomat, for one, has linked the slow progress of the Doha Round to “the linkages between geopolitical transformations and the multilateral trading system.”⁸⁴ The close connection between the emergence of new powers, China foremost among them, and the paralysis of further liberalization, also appears to be widely acknowledged by many senior Geneva-based WTO diplomats. In interviews, permanent representatives or their deputies almost unanimously mention the geopolitical shift of power, especially due to Beijing, and the new power balance this creates as one of the key sources of the Doha Round’s troubles.

A major consequence has been a resurgence of regional and plurilateral paths to trade integration and the subsequent “erosion of non-discrimination”⁸⁵ that this implies. By January 2012 there were a total of 319 RTAs already in force, and 511 officially notified at the WTO,⁸⁶ constituting an increasingly complex and overlapping network of trade and investment agreements that has been termed both a ‘regime complex’⁸⁷ and a global ‘non-WTO’ regime.⁸⁸ Indeed, at least 144 new regional trade agreements have been concluded since the Doha Round began in November 2001. This has been particularly strong in the developing world, with more than half of RTAs currently under negotiation worldwide are between developing countries only, and almost 85 percent of them involve developing countries.⁸⁹ But this is also accompanied by a bi-oceanic liberal counter-response on the side of the United States, centering on the Transatlantic Trade and Investment Partnership (TTIP) and the Trans-Pacific Partnership (TPP). Regional trade agreements challenge the principles of multilateralism and non-discrimination, which lie at the heart of the WTO regime.

⁸³ Collier 2006.

⁸⁴ Baracuh 2012, 2.

⁸⁵ Sutherland et al. 2004, 19–27.

⁸⁶ World Trade Organisation 2012.

⁸⁷ Davis 2009.

⁸⁸ Antkiewicz and Whalley 2006.

⁸⁹ Schott 2004, 9.

The WTO is unlikely to be unique in this regard. Rather, it is a generalized feature of contemporary global governance that the emergence of new powers increases the heterogeneity of interests of the core of the global economy. The record of continuing capitalist diversity suggests that integration into transnational economic structures and institutional membership will not of themselves generate convergence and eventual isomorphism in institutional structure and policy preferences. This is for three major reasons. First, while emerging powers have liberalized strongly in the last two or three decades, these measures are subject to diminishing marginal returns, and have in some areas receded or gone into reverse, especially in light of the global financial crisis and the delegitimation this implied for further liberalization. Secondly, nothing succeeds like success, and the state-led, illiberal models improvised by the emerging powers have shown that they can be both globally competitive and less susceptible to external economic shocks. Thirdly, studies of different permutations of capitalism in the developed world have grown increasingly skeptical that particular national equilibria are being pushed into a single configuration as *laissez faire* competition states. Rather, competition states can take many forms, including illiberal trading states. While these structures have grown up in tandem with the existing institutional structure, they are not ‘harmonized’ with them. There remain important points of difference that make grand agreements harder to achieve, and which have discredited the ‘globalization plus’ agenda for liberalization through unmediated integration into the world economy.⁹⁰ Long imprinted with the dominance of the liberal capitalist economies of the North Atlantic, the global economy is shifting towards a multipolar configuration in which diverse centers of economic growth shape the rules and understandings that underpin the global economy.

More broadly, these findings suggest that conflicts over leadership *within* the existing international order are not so easy to separate from conflicts *of* the order’s norms and

⁹⁰ Wade 2003.

principles.⁹¹ If indeed “[t]he liberal state and the liberal world order emerged together”,⁹² the emergence of illiberal forms of state to a central position in global capitalism is likely to pose challenges to the liberal norms and policy content of contemporary global governance. In the case of the WTO, it already has.

⁹¹ Ikenberry 2011b.

⁹² Cox 1987, 123.

Appendix

Code value	Question: Should deep new regulation be adopted in the given area, leading to the restriction of policy space and to significant trade liberalization?	Illustrative example
0	Strongly disagree	The need for a multilateral agreement on investment (...) is not clear. It can neither promise additional investment flows nor reduce transaction costs for investors significantly. However, an agreement will certainly curtail the policy space of developing countries. [India 2003, Singapore issues]
1	Disagree	Agriculture is the foundation of society in every country, and it provides a variety of functions that are beneficial to the society. As there are differences in the natural conditions and the historical background from one country to another, I think that the diversity and coexistence of agriculture among various countries need to be preserved. Various functions of agriculture towards different non-trade concerns, such as food security, rural development and the environment, cannot be obtained through foreign trade but only through agricultural activities in each country. [Japan 2003, agriculture]
2	Neither agree nor disagree	In relation to market access (...) significant trade barriers in the form of tariff peaks and tariff escalation continue to affect many developing country exports. These will clearly need to be squarely addressed. Meanwhile, sensitive industries in developing countries including small scale industries sustaining a large labour force cannot be allowed to be destroyed. [India 2001, NAMA]
3	Agree	We must continue to ensure that the WTO leads the way in examining issues of vital relevance to a healthy global trading system - issues such as new market access, fish subsidies, food security, trade facilitation, and regional trade agreements. [United States 2011, several areas]
4	Strongly agree	Subsidies and barriers in developed countries suppress prices, displace production and threaten livelihoods in developing nations. This is where reform is most needed, and most urgently. Rich countries cannot expect to receive payment for doing what they should have done long ago. After so many years – should I say decades or centuries? – remnants of feudalism have been lingering on side by side with other forms of unacceptable privileges. Poor countries cannot wait for another 20 years to see true reform in agricultural trade. The time to act is now. All forms of distorting subsidies have to be eliminated or drastically reduced. [Brazil 2005, agriculture]

Table 1: The coding scheme

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