

EC246-2-AU – Lecture 10
12 December 2005

The Political Economy of International Trade Policy

Alexander Mihailov
University of Essex

Plan of talk

- **Introduction**

1. Political economy of trade policy
2. Actors in economic diplomacy
3. Business and WTO
4. NGOs and WTO
5. Seattle, Doha and further...

- **Wrap-up**

Aim and learning outcomes

- **Aim:** to understand and discuss
 - the political economy of international trade policy
 - the tensions between WTO and NGOs and the prospects for solutions
- **Learning outcomes**
 - characterise the process of trade policy formulation and implementation
 - describe the key actors in it
 - summarise the conflict between NGOs and WTO
 - evaluate the likely ways to resolve it

Political economy of trade policy

trade policy in a *pluralistic* society is formulated and effected through a complex process of decision-making

- **actors:** government, parties, business, unions, consumers
 - interests
 - bargaining power
 - social influence
- in a changing world, **rules and procedures** are subjected to *continuous pressure for change*
 - lobbying by interest groups
 - street demonstrations
 - research (indirect impact)

Political process in a democracy

- all **interest groups** have the opportunity to express their views to the representatives in the legislation and government
- given the need to be (re)elected, **politicians** will be responsive to those interests, as they must mobilise votes in election times
- differences in **institutions** reflect differences in *economic* and *political* systems, especially
 - role of the **state** in the economy (degree of centralisation)
 - importance of market forces and strength of **private property** rights
 - **power structure** that has emerged over time

National actors in economic diplomacy

- **state** actors
 - the executive branch of government
 - the legislative branch of government: political parties and representation
 - local government
 - regulatory agencies
- **non-state** actors
 - business interest groups
 - confederations of industry
 - sector trade associations
 - trade unions
 - consumer organisations

Transnational actors in economic diplomacy

- **global civil society:** Internet-facilitated NGO networks that make a deliberate effort to shape policy or regulation of markets
- **international business**
 - International Chamber of Commerce (ICC), 1919, Paris
 - World Economic Forum (WEF), Davos
- **international organisations**
 - WTO, IMF / World Bank, ILO
 - International Standards Organisation (ISO)
- **epistemic communities**
 - “network of experts with recognised expertise and competence and an authoritative claim to policy relevant knowledge in the issue concerned”, Haas (1997)
 - example: the evolving positions of US and France concerning GATS

Industry and trade policy

- **firms** may lobby for policies that
 - shelter them from foreign competition
 - generate monopoly rights
 - exempt them from taxes
- **policy makers** should ensure that such rent-seeking behaviour is controlled and filtered through institutions that limit the risk of capture by the powerful
- **conflicts** are inherent in defining trade policy since it involves redistribution of income across social groups
- in many countries, formal structures ensure the **exchange of information** between business and government; in other countries such interaction is limited to a small elite

NGOs and WTO

- **NGOs:** non-profit entities with voluntary membership that pursue non-economic objectives
 - influential
 - OECD: NGOs raised 5.5 bln USD from private donors (1997)
 - Economist: NGOs provided 8% of all jobs in North America 6% in UK (2000)
 - common denominator for NGOs active on WTO: *sustainable* development
 - focus on *social* and *environmental* objectives
 - in addition to *economic* ones
- major reason for increased activism in the 1990s: perception that
 - “big business” and “corrupt politicians” *dominated* the process of MTNs, thus reducing the **legitimacy** of the system
 - as part of a broader discussion on whether and how to manage **globalisation**
 - WTO Director-General Ruggiero: WTO as a central pillar of globalisation
 - NGOs largely misperceived WTO’s role

Areas of attacks on WTO and major NGOs

- **labour and human rights**
 - International Federation of Free Trade Unions (Brussels)
 - Public Citizen Global Trade Watch (US)
- **environment**
 - Greenpeace
 - World Wildlife Fund (WWF)
 - Sierra Club (US)
- **consumer protection**
 - Consumer International
 - Transatlantic Consumer Dialogue (TACD)
- **economic development**
 - Int-l Center for Trade and Sustainable Development (ICTSD, Geneva)
 - South Centre (G-77, Geneva)
 - Third World Network (TWN)

NGOs key arguments against WTO

- WTO is dominated by – and is instrument of – industry lobbyists and MNCs, resulting in **neglect** of the *areas of global importance* enumerated on the previous slide
 - WTO needs to move to a more **participatory approach** by creating *consultation mechanisms* and *advisory bodies* in order to generate trust
 - countervailing power is needed to increase government **accountability** in trade negotiations, essentially by granting the NGO community *direct access* to WTO
- => **role of WTO:** how focussed/broad shall it be?
- conformers: global integration, markets, WTO are *beneficial* for growth
 - reformers: WTO valuable but its procedures lead to *inefficient* outcomes
 - radicals: *abolish* WTO

Governance, WTO and NGOs

- The **Marrakech agreement** explicitly acknowledged the need for greater involvement of civil society in WTO
- 1996: arrangements for **consultation and cooperation**
 - these arrangements were left to the discretion of WTO
 - premise that democratically elected governments legally and adequately represent nations in their trade deals
- **Two proposals** to establish confidence in WTO have recently attracted attention
 - a **management body** similar to those at IMF or WB: certain WTO members would have to represent others (in a group)
 - NGOs to be given **observer status**, thus eliminating their exclusion: NGOs are observers at UN

Seattle, October 1999

- **WTO 3rd ministerial meeting** was *not* well prepared
- violent *street demonstrations* essentially caused its **failure**
- the apple of discord: **WTO legitimacy**
 - many NGOs took the view that
 - WTO was not inclusive / participatory, and
 - did not allow them a say on global issues
 - Governments countered that
 - WTO is an inter-governmental organisation, and
 - NGOs have to play by the rules for all interested groups: use domestic advocacy and consultative process to get their views reflected in national policies, further negotiated/coordinated at WTO
 - NGOs countered, in turn, that
 - such mechanisms do not exist in many countries, yet WTO legitimacy hinges on the efficiency of national policies
 - therefore, pressure at a global level should complement such national efforts

Doha, November 2001

- **WTO 4th ministerial meeting:** viewed against the background of the debacle in Seattle, Doha was a **success**
 - it laid the foundation for a broad-based negotiation on *further* trade liberalisation
 - with an agenda that seems to reflect the interests of the *full* range of WTO members
- agreement was reached to launch a **new round** of MTNs, termed the *Doha development agenda*
 - close attention to the concerns of **developing countries**
 - important **decisions** were taken to benefit them
 - **access to medicines:** to clarify the scope of TRIPs rules
 - **50 measures** from the developing countries' list of problems at the Uruguay Round agreed, commitment to tackle the remainder
 - systematic attention to be given to **capacity building:** help in building up the ability of smaller and poorer members to take part in complex MTNs

GATT/WTO: an assessment

- Political economy of **trade policy**
 - trade theory
 - trade policy
 - trade negotiations
- Political economy of **trade institutions**
 - GATT
 - WTO
 - where further?
- Course assessment: discussion

Concluding wrap-up

- **What have we learnt?**
 - to summarise the political economy of trade policy
 - to characterise the major actors in it
 - to discuss NGO-WTO frictions and their likely solutions
- **Where we go next:** to an individual evaluation / rethinking of the course and its usefulness for future courses / career