New powers in the club: the challenges of global trade governance

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The Doha Development Agenda (DDA)—the first trade round to be negotiated under the umbrella of the World Trade Organization (WTO), and the ninth in the postwar multilateral trading system—has been dogged by recurrent deadlock. But the stasis surrounding the Doha negotiations should not be mistaken for stasis in the WTO. The world that the WTO was created to govern has been changing rapidly, and, unlike many other international organizations, the WTO has proved unusually responsive to these changes. The most important of these changes has been the shift in the economic balance of power, with the emergence of the new powers that have come to be popularly known as the BRICs.1 Unlike other organizations, such as the IMF, the World Bank or the UN Security Council, that have been slow to adapt their decision-making structures to reflect these ground-level changes, the WTO has welcomed Brazil, China and India (the BICs) into the core of its decision-making. Moreover, many of these institutional changes within the organization are not a knee-jerk reaction to the financial and economic crisis, but predate it. As a result, the WTO today looks quite different from the ‘rich man’s club’ of the General Agreement on Tariffs and Trade (GATT), which was dominated by the old Quad (EU, US, Canada and Japan). Interestingly, however, this ability of the WTO to adapt to changing external imperatives has generated mixed results. In this article, I address the question: what impact has the emergence of the new powers of the BICs had on the WTO?

The article proceeds in four parts. In the first section, I provide a brief account of the changing role of the new powers in the WTO. The second section analyses the opportunities that these developments generate, while the third investigates the challenges they pose. The fourth and concluding section explores possible solutions, both within the organization and in parallel institutions such as the G8.

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1 The acronym was coined by Goldman Sachs, Dreaming with the BRICs: the path to 2050, Global Economics paper no. 99 (New York: Goldman Sachs, Oct. 2003). Note, however, that the inclusion of Russia is contested: see e.g. Andrew Hurrell, ‘Hegemony, liberalism and global order: what space for would-be great powers?’, International Affairs 82: 1, Jan. 2006, pp. 1–19; S. Neil MacFarlane, ‘The “R” in BRICs: is Russia an emerging power?’, International Affairs 82: 1, Jan. 2006, pp. 41–57. Given, moreover, that Russia is not a member of the WTO, I will be focusing in this article only on Brazil, India and China, i.e. the BICs.
and the G20, which may improve both the fairness and efficiency of global trade governance.

**New powers in the WTO**

There are at least three indicators of the growing importance of the BICs in global trade governance: their large and growing trade shares, their concerted activism in the WTO, and their growing presence in key decision-making fora within and beyond the WTO.

The figures, to start with, speak for themselves. China, despite the downturn in the world economy precipitated by the financial crisis, remained the world’s second largest exporter of merchandise, accounting for 11.3 per cent of the world’s exports (excluding intra-EU trade) in 2008. Brazil and India, though further behind at 16th and 19th positions in the export table, accounting for 1.6 per cent and 1.5 per cent of the world’s export market respectively, still featured in the list of top 20 leading exporters of merchandise. In services, too, the BICs have cornered a large chunk of the market: in 2009, China ranked as the third largest exporter of commercial services, with a 5.3 per cent share of the market; India was the fifth largest, with 3.7 per cent of the market; and Brazil ranked 18th but still occupied a significant 1 per cent of the market. Compare these figures against the position of the BICs just over a decade ago: China in 1997 ranked as the tenth largest exporter of merchandise, with 3.3 per cent of world exports, and the 16th largest exporter of commercial services, with 1.9 per cent of world exports (which at the time included intra-EU trade). Brazil and India did not feature even in the list of the top 25 leading merchandise or services exporters. In other words, the rise of the BICs as major trading nations has been dramatic. All three economies have shown far greater resilience to the havoc wrought by the financial crisis than western markets. Add to this the still untapped potential of their vast markets, and other power indicators (including military prowess), and we would expect them to have a major role in most aspects of global governance.

But cornering a large share of the world’s export markets and showing resilience to economic downturns do not automatically lead to greater voice in the WTO. The inertia of and entrenched interests in most international organizations make them slow to respond to external changes. The WTO, which is driven by its members, is less prone to bureaucratic inertia than organizations led by their staffs, but even in the WTO market power does not immediately translate into institutional power. Not all the 20–25 leading traders in the WTO enjoy regular invitations to the high table of multilateral negotiations or other small-group meetings. Insofar as exercising voice in any international organization is a function of the agency and activism that particular countries are able and willing to invest, the BICs stand out in comparison to most members of the WTO, developed and developing.

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Brazil and India have a long history of activism in both GATT and the WTO. One of the means through which they have exercised this activism is by forming and leading coalitions of developing countries. Both as a result of their increasing economic power and through institutional learning and adaptation within the organization, these two countries have shown increasing willingness and ability to provide the club good of coalition unity (by bearing the burdens of research and information-sharing, and allowing considerable free-riding by smaller members of the coalition). China, joining the WTO in 2001, started off by adopting a lower profile than Brazil or India. For instance, though it was a founding member of the G20 coalition, it occupied itself with work behind the scenes in contrast to the front-line leadership exercised by Brazil and India. But in the July 2008 talks it adopted a much more prominent role, and joined India in blocking the deal that was on offer. All three countries now show a much greater sophistication in the proposals they present, and also greater confidence in negotiating with their coalition allies as well as with other parties.

The third indicator of the growing importance of the BICs in the global trading system is the extent to which WTO decision-making processes have been adapted and reformed to accommodate them. The old Quad has been replaced by new groupings that have taken the shape of the ‘New Quad’ or G4, the Five Interested Parties (FIPs), the G6 and the G7. These groupings represent the high tables of decision-making, where the first steps are taken towards building consensus, and Brazil and India (along with the EU and the US) are invited to all of them. At the July 2008 talks, the grouping was extended to seven, including China (besides the EU, US, Brazil, India, Australia and Japan). Nor is this inclusiveness a form of tokenism. As the EU and the US have seen repeatedly since 2003 (when the first major deadlock of the DDA occurred at the Cancún ministerial), the BICs, individually or in coalition, are not shy of using their veto power.

It is perhaps also worth noting that parallel institutions with some remit in trade matters have also shown some responsiveness to the rise of the BICs. In part this predates the crisis: for instance, the attempts to expand the G8 by according a greater voice to these countries goes back to the creation of the Outreach Group. In global attempts to deal with the financial and economic crisis, their importance has only risen. For example, the three are also key members of the G20 (to be

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distinguished from the trade coalition of the G20 within the WTO, which will be referred to for the purposes of this article as the Trade G20), which has come into the limelight since 2008 in its attempt to provide coordinated leadership to solve the financial crisis. The impact of the growing role of the BICs on global trade governance, and particularly the WTO, is analysed in the next two sections.

The opportunities of greater inclusiveness

The inclusion of the new powers into the core of global trade governance brings with it several benefits and opportunities. The first and most important of these is that the WTO presents a much more accurate reflection of the global balance of power outside it than most other formal organizations (or indeed, even the G8, where the new powers have at best acquired the status of an ‘outreach group’ and do not figure as fully fledged members). Decisions arrived at in an organization that offers a relatively realistic representation of political power are likely to have greater efficacy and durability than those emerging from smaller ‘elite’ bodies. For example, one of the crucial problems with the IMF and the World Bank is that their governance structures no longer reflect existing power realities, which reduces both the efficiency and the legitimacy of their decision-making; the WTO’s willingness to evolve with the changing times helps the organization to avoid some of these problems. A necessary (though not sufficient) condition for any properly functioning government or governance system is that the major players buy into it; by giving them a bigger say in the decision-making, the WTO can potentially secure greater buy-in from the BICs.

Second, it is important to bear in mind that the BICs, despite their rising economic trajectories, continue to maintain close links with the global South. Having these countries at the heart of decision-making is very different from including Canada, Australia or even Japan. As Andrew Hurrell rightly argues, these three countries, plus Russia, lie outside or on the margins of the liberal ‘Greater West’ formation. In contrast to Australia, Canada, Japan and the European countries, they are not closely integrated in alliances with the US. Their visions of international order, moreover, have presented a challenge to those espoused by the liberal West.8 The continued association of the BICs with Third Worldist coalitions as well as with ideas of distributive justice and developmentalism means that their inclusion at the core allows for the possibility of the creation of a more pluralist trading system. As such, the benefits that can follow are not only those of efficiency (deriving from a better representation of the altered balance of power) but also those of fairness (deriving from the BICs’ association with, and indeed membership of, the developing world).

Third, insofar as the BICs operate in coalitions, their increasing prominence in the WTO has the potential to offer greater representation to their smaller coalition partners. Of course, the ability of the BICs to truly ‘represent’ other developing countries is contested, and rumblings of discontent came to the fore.

8 Hurrell, ‘Hegemony, liberalism and global order’.
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particularly in the discussions of July 2008. But equally, a close examination of coalition dynamics (particularly the refusal of members to be bought off through side deals) reveals that coalition unity is not a factor that can be easily disregarded.9 It also, by implication, offers at least some representativeness for the smallest players through their coalition leaders.

Finally, greater weight and voice for the BICs in trade governance have given development concerns unprecedented importance in trade negotiations. It is difficult to imagine that a trade round in the GATT days would have been named the Doha Development Agenda; it is even more difficult to imagine that development would have continued to form the main theme of the negotiations after token goodwill gestures had been made towards the concept at the start of the process. That development remains central to the DDA can partly be explained by the fact that the WTO has major developing countries at its helm rather than just the old Quad.

The list of opportunities provided here would suggest that the rise of the BICs in the WTO augurs well for the organization: an organization that is fairer, more efficient, more pluralist and more development-friendly is likely to enjoy greater ownership among its stakeholders (including NGOs). Unfortunately, however, power transitions are seldom easy, and the rise of the BICs has also thrown up new and unanticipated challenges for the organization as well as parallel mechanisms of governance.

New powers in old clubs: challenges and problems

Flexibility and adaptability to new balances of power should have resulted in the WTO functioning more smoothly. Instead, however, we see disengagement by the EU and the US (and domestic political constituencies within them), dissatisfaction from the BICs (which have shown considerable reluctance to compromise and have held up agreement), and discontent from the rest of the developing world (which complains of marginalization despite improvements in inclusiveness and transparency). Permanent deadlock at the WTO is one significant indication of how poorly the organization is functioning: the DDA was scheduled to be completed in 2005, but is nowhere near completion almost five years past the deadline. The turn to bilateralism and regionalism is a reaction on the part of states disillusioned with multilateralism and seeking market access through other means.

Recurrent deadlock within the organization not only delays the promised benefits of trade liberalization under the DDA, but also undermines the credibility of the WTO, and further heightens the risk that countries will return to protectionism when the going gets tough. This is indeed the outcome that we have seen as governments grapple with the financial crisis and its aftermath. The third Global Trade Alert Report, for instance, points out:

Since the first G20 crisis-related summit in November 2008, the governments of the world have together implemented 297 beggar-thy-neighbour policy measures; that is, more than one for every working day of the year. Add in another 36 implemented measures that are likely to have harmed some foreign commercial interests, and the total reaches 353. Moreover, since the GTA’s last report was published in September 2009, the number of beggar-thy-neighbour measures discovered (105) was more than eight times the number of benign or liberalising measures (12). Looking back on all of the measures implemented since November 2008, the ratio of blatantly discriminatory measures to liberalising measures stands at nearly six to one.10

The fourth Global Trade Alert Report goes on to note that despite stabilization since the third report, protectionist pressures have persisted.11 The WTO has been able to do very little to slow down the juggernaut of protectionism, regionalism and bilateralism. Why is this?

In the very strengths of the WTO—its adaptability to altered balances of power, reinforced by its member-driven character—also lie its weaknesses. There are four important reasons why the multilateral trading system, which had ensured the provision of the public good of freer trade since the end of the Second World War, is failing us today. All four reasons are related in one way or another to the changed balance of power that the WTO has tried to accommodate.

First, the inclusion of the BICs at the core of decision-making places a more diverse group of countries in the driving seat. The old Quad displayed far greater homogeneity than its newer incarnation has done, whether it takes the shape of the smaller G4 or the bigger G7. Not only are the BICs at considerably different stages of development, with very different domestic political economies from the EU and the US (which makes it harder for them to make concessions on certain areas such as agriculture), but they also bring very different negotiating cultures and ideas of fairness and distributive justice to the negotiating table. To this variable of cultural diversity must be added the additional factor of multipolarity. After all, power in the WTO today is more evenly distributed among the leading players, in contrast to the monopoly of power that was enjoyed by the US when the GATT was created, or indeed the duopoly that emerged with Europe’s postwar recovery. And the more equal the power distribution, the harder it is to reach agreement.12

A multipolar system with several diverse powers in leading positions may still manage to function adequately if there are institutional mechanisms in place that can help overcome the problem of deadlock. But this brings us to the second problem with the WTO: even though it has accommodated the BICs, the process


12 In a recent study on deadlocks in multilateral negotiations, the hypothesis that deadlocks are a function of the balance of power was the most popular hypothesis of six that were analysed, and was confirmed by all the case-studies: see Amrita Narlikar, ed., Deadlocks in multilateral negotiations: causes and solutions (Cambridge: Cambridge University Press, 2010).
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by which it functions remains unchanged. Consensus-based decision-making worked in the ‘Rich Man’s Club’ because the great majority of the contracting parties to GATT were willing to forgo their right to veto an agreement; the ‘principal supplier principle’ allowed the major powers to reach an agreement first and then multilateralize its benefits via the Most Favoured Nation clause to all GATT signatories. But consensus-based decision-making makes it impossible to reach agreements today, even among the diverse group of countries at the helm, let alone the rest of the membership. In other words, limitations of institutional process are holding up the WTO, but these limitations arise fundamentally because of the altered balance of power that the organization now reflects.

Third, one of the sources of the strength in the WTO of Brazil and India particularly, and to a lesser extent of China, lies in the coalitions they have formed and led. Their recent successes in leading coalitions, particularly the Trade G20 formed at Cancún in 2003 (of which Brazil, China and India were founding members) and also the G33 (also originating in Cancún, and comprising China and India), are a source of empowerment for their allies as well as themselves. In any international organization, irrespective of whether it works on the basis of majority voting or not, the support of large numbers strengthens and legitimizes one’s claims at the agenda-setting stage. The Doha coalitions of the South, including the Trade G20 and the G33, go a step further than that by remaining united in the negotiation phase. As such, these coalitions are a far cry from previous developing country coalitions that were firm in making their demands but would usually collapse in the endgame, thereby not only destroying the collective negotiation position but also undermining the negotiation positions of individual members. While the emergence of such strong coalitions is a positive development in terms of the bargaining positions of the BICs and their allies, it generates an important cost: countries operating in strong coalitions find it particularly difficult to make concessions. This is so for two reasons. First, coalition allies may see any attempts by the leaders to initiate concessions as a sign of defection. Second, the outside party (in this case, the EU or the US) can interpret any concession as a sign of weakness, especially if it is aware of dissensions within the coalition. Effectively, multilateral diplomacy that is founded on strong coalitions may empower some of the weakest members, but it is also prone to deadlock and usually decreases the efficiency of the system. And coalitions of the South are here to stay. Even if the BICs were to stop leading them, alternative leaders of new coalitions would emerge, and would produce another change in the balance of power of the organization.

Finally, while there is no question that a system that includes the BICs at its core is more representative than one without—and especially so insofar as the BICs further offer indirect representation for members of coalitions that they lead—the

impact of their inclusion on the general legitimacy of the system is questionable. Exactly what constitutes legitimacy is subject to debate, but Allen Buchanan and Robert Keohane offer a simple and useful definition, where the legitimacy of global governance institutions is ‘the right to rule, understood to mean both that institutional agents are morally justified in making rules and attempting to secure compliance with them and that people subject to those rules have moral, content-independent reasons to follow them and/or to not interfere with others’ compliance with them’. It is obvious that an institution that is deemed fundamentally ‘unfair’ is likely to have its legitimacy challenged (as the Seattle demonstrations, for instance, highlighted in the case of the WTO). But it is also highly unlikely that an institution will be accorded the ‘right to rule’ if it is seen to be fundamentally inefficient. Even if an institution manages to acquire a reputation for ensuring fair process and outcomes, its members would find it very difficult to legitimize their commitment to it if the time and resources spent on reaching these goals were disproportionate to the accrued benefits.

While the WTO has gone far in improving its transparency and inclusiveness, thereby correcting some of its fairness deficit, it has been less successful in addressing its efficiency deficit. In fact, recent developments in the WTO reveal the trade-off between fairness and efficiency considerations. Though the WTO assures developing countries of fairer process than the GATT, its negotiation and decision-making processes have become considerably more laborious (as highlighted in the previous paragraphs). Moreover, the success of developing countries in managing to bring development to the fore, sometimes at the expense of other issues prioritized by the developed countries (such as the Singapore issues), has created considerable apathy towards the multilateral trading system in the North. The private sector, which so successfully created pressures on developed country governments to get a deal in the Uruguay Round, has chosen to invest its energies elsewhere. Unsurprisingly, when faced with interminably long rounds and no political support for them at home, politicians are turning to the more populist, cheaper and quicker alternatives of bilateralism, regionalism and protectionism.

No good deed goes unpunished: the WTO’s timely responsiveness in accommodating the new powers at the heart of its decision-making has produced new...
inefficiencies, has heightened its proclivity to deadlock, and has exacerbated disengagement and disillusionment among all its stakeholders. Particularly in the context of a major economic crisis, a reliable international institution is necessary to ensure the continued provision of freer trade (well recognized as the route to recovery). With the WTO’s recent record to provide these necessary public goods in doubt, where do the solutions lie?

Reforming global trade governance

The problems of the WTO stem fundamentally from changes in the balance of power, both within and outside the organization. The financial crisis, by diffusing power further away from the US and the EU and towards the new powers, further tilts the balance of power away from the old Quad, shifting the organization towards greater multipolarity. As the WTO is the central institution responsible for the liberalization and regulation of international trade, its problems are also problems for global trade governance as a whole. There is very little by way of reform that can realistically be done—or indeed should be done—to alter the balance of power itself. A more productive line of reform would be to build on the gains in fairness and inclusiveness that the system has already achieved, while further addressing considerations of efficiency. I address two sets of proposals below: reform external to the WTO through the G20, and internal institutional reform within the organization.

The role of the G20

The G20 neither is nor can be (nor indeed should it be) a substitute for a multilateral trade organization or some of the decision-making processes of the WTO. For example, any attempts to build preliminary consensus through a G20-level mini-ministerial are unlikely to enjoy ownership by the rest of the WTO membership. Moreover, as was argued in the previous section, one of the problems with the WTO today is that it brings together at the helm multiple and diverse powers among which it is difficult to reach consensus; attempting to build consensus in an even larger and more diverse group such as the G20 is going to be more difficult still. In other words, bypassing some of the processes of the WTO and taking them to the G20 level is unlikely to address the inefficiency problem. Such a strategy also risks reversing the significant advances that the WTO has made in ensuring fairer processes, not only by including the BICs in the new Quad but also through improved internal transparency mechanisms that allow considerably more access to smaller countries than the G20 does. This is not to say that mini-ministerials and other forms of small-group consultations among a subset of the membership do not happen or should not happen; especially in conditions of stalemate, such meetings are and will remain an important mechanism in finding...
the pathway to agreement. But to institutionalize such meetings in a forum outside the WTO, from which the great majority of the membership of the organization is systematically and institutionally excluded, will not improve the legitimacy or ownership of the multilateral trade regime.

What role, then, can the G20 play in the preservation and improvement of the multilateral trading system? A particularly important and constructive role for the G20 would be not as a substitute for the WTO but as its supporter. At a time when leadership has been lacking in the organization, the commitment of the world’s leading economies to uphold the norms and rules of the WTO via the G20 could be just the boost that the system needs. To some extent, this is what the G20 has attempted to do. The London communiqué, for instance, declared:

World trade growth has underpinned rising prosperity for half a century. But it is now falling for the first time in 25 years. Falling demand is exacerbated by growing protectionist pressures and a withdrawal of trade credit. Reinvigorating world trade and investment is essential for restoring global growth. We will not repeat the historic mistakes of protectionism of previous eras.\(^{18}\)

To this end, it made all the right noises in terms of pledging commitment to the ‘ambitious and balanced completion’ of the DDA, and also pledging ‘to refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organisation (WTO) inconsistent measures to stimulate exports’. In practice, however, these ‘commitments’ have so far shown themselves to be little more than what game theorists call ‘cheap talk’. First, the commitment to resist protectionism is simply not borne out in reality; in fact, the third Global Trade Alert Report points out that, of the 297 beggar-thy-neighbour policy measures that were implemented from November 2008 to December 2009, ‘G20 governments were responsible for imposing 184 of these protectionist measures’.\(^{19}\) Second, Geoff Pigman rightly argues that, in contrast to the attention accorded to the IMF, ‘the WTO was the ghost at this feast of multilateral cooperation and compromise, with conclusion of multilateral negotiations to complete the DDA far from prominent on the London G20 agenda.’\(^{20}\)

More costly signals will be needed to show its commitment to multilateral trade if the G20 is to play a useful role in both facilitating and sustaining economic recovery. Some of these were outlined by Paola Subacchi and Alexei Monsarrat, including a twelve-month freeze on new protectionist measures and a rollback on existing measures, and commitment to complete the DDA as not just an empty promise but with specific milestones.\(^{21}\) A freeze on protectionist measures by the


\(^{19}\) Evenett, *The unrelenting pressure of protectionism*.


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G20 that is binding (perhaps even linked to the WTO via the Dispute Settlement Mechanism) would not only help slow down spiralling protectionism in the system, but would also serve as the necessary costly signal to other WTO members. Overall, such steps would not only serve the immediate purpose of facilitating economic recovery, but would also help to address the longer-standing problem of absent leadership that the DDA was facing even prior to the crisis.

Internal reform within the WTO

Supportive measures from the G20, along the lines spelt out above, would still come to naught if the WTO itself were to retain institutional processes that are out of sync with altered power realities. The most seriously flawed of these processes is the pursuit of decision-making by consensus in a context of multipolarity and increased diversity at the core. There are several different routes to reforming consensus-based decision-making, which can be broadly grouped into two categories: delegation of powers to an executive board, and altering the voting rules.

The first set of solutions—the creation of an executive/consultative/advisory board—has been explored the more thoroughly.22 This may address the issue of efficiency, but will create serious new problems associated with fairness. Delegation of power to an executive board—even of limited advisory capacity—would prompt complaints of disenfranchisement from a great majority of the members. In some ways, an executive board solution would take the WTO even further behind GATT in formalizing the exclusion of the greater part of its membership. Parallel examples in other international organizations (the IMF, the World Bank, the UN Security Council) and the criticisms that they have attracted on grounds of inclusiveness and representativeness warn against importing similar institutional flaws into the WTO.

The limitations of the first set of proposals, in terms of both their normative implications and their political feasibility, have led many scholars recently to explore ideas of alternative forms of voting through ‘critical mass’ approaches.23 A discussion of the details of these proposals lies beyond the scope of this paper.24 But it is worth mentioning briefly that one of the biggest problems with a critical mass approach on its own is that it can be seen as little more than a return to

the ‘principal supplier principle’, with all the associated problems of marginalization and exclusion. This is why I argue elsewhere that any revision of the voting system would have to involve two thresholds: one that would buy in the commitment of the major players by improving the efficiency of the system, but another that would ensure that the great majority of the membership also had a meaningful say in the decision-making process. One combination of this would be a critical mass approach combined with a second threshold of voting system that required a super-majority. Such a system of voting would remove the inefficiencies inherent in a consensus-based system that accords effective veto power to the entire membership. Its dual benefits would lie in bringing back the commitment of the major markets to the system and simultaneously ensuring that the majority of the membership preserve a sense of ownership of the decisions. The improved democratic credentials of the organization would be retained, but its efficiency would also be enhanced.

Though power transitions represent a challenge to any international institution, they also provide a great opportunity to reform and rebuild. The entry of the BICs into the WTO as veto players has certainly created new problems, as analysed in this article. But it also offers a new opportunity to reform the WTO and related institutions, thereby contributing to the creation of a fairer, more efficient and, overall, more legitimate system of global trade governance. The context of urgency provided by the financial crisis could be further exploited to this end. If there were ever a need and an opportunity to strengthen the multilateral trading system, they are here now.

25 Narlikar, 'Adapting to new power balances'.