

Participation of Small Developing Economies in the Governance of the Multilateral Trading System

RICHARD L. BERNAL

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CIGI WORKING PAPER

Developing Economies

Participation of Small Developing Economies in the Governance of the Multilateral Trading System

Richard L. Bernal

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About the Author

Ambassador Richard L. Bernal is the alternative executive director for the Caribbean in the Inter-American Development Bank. He was lead trade negotiator on behalf of CARICOM and CARIFORUM countries in the FTAA, EU-CARIFORUM Economic Partnership Agreement and the WTO. Between 2001 and 2008, he was Director General of the Caribbean Regional Negotiating Machinery. He was Jamaica's Ambassador to the US and Permanent Representative to the Organization of American States (OAS) during 1991-2001. Earlier in his career, Amb. Bernal was CEO of a commercial bank and previously worked in Jamaica's central bank and Ministry of Finance. He taught international economic and development economics at the University of the West Indies. He holds a BSc in economics from the University of the West Indies, an MA and PhD in economics from the New School for Social Research, and a MIPP (international public policy) from the School for Advanced and International Studies, Johns Hopkins University.

Abstract

Given their vulnerability to external economic events, small developing countries (SDEs) are particularly cognizant of their place in the world economy. Moreover, given their reliance on international trade for prosperity, SDEs are also concerned about the rules and institutions governing the multilateral trading system. In this paper, the author reviews and evaluates the participation of SDEs in the governance of the multilateral trading system, with a particular focus on the WTO. He suggests how SDEs can improve the efficacy of their participation in the WTO's decision-making process, and proposes ways in which the WTO could be adapted to better integrate SDEs in its governance.

1. Introduction

Given the overriding importance of international trade to the governance and performance of small developing economies (SDEs) and their acute vulnerability to external economic events, these countries are vitally concerned with both the character and the intensity of their place in the world economy and the nature of the rules and institutions governing the multilateral trading system.* If SDEs are to achieve sustainable economic development, they will have to attempt to reposition themselves in a strategic global sense, which will involve both changes in their internal development policy and the exertion of as much influence as possible to shape the multilateral trading system (see Bernal, 1996: 2000) – in particular, as represented by the World Trade Organization (WTO). Since the WTO is the institution responsible for the creation and revision of the rules that govern the multilateral trading system and for the adjudication of disputes arising from differences in interpretation or application of those rules, SDEs should seek effective participation in the governance of the WTO in order to influence its deliberations. It is through changes in the decision-making process and operations of the WTO that the multilateral trading system will respond more effectively to the interests, concerns and objectives of the SDEs.

This paper has several objectives. The first is to review and evaluate the participation of SDEs in the governance of the multilateral trading system, with a particular focus on the WTO. The second objective is to suggest ways to improve the efficacy of the participation of SDEs in the WTO's decision-making process. The third objective of the paper is to propose

* The views in this paper are those of the author and not necessarily those of the Caribbean Regional Negotiating Machinery or those of its Member States.

ways in which the WTO could be adapted to facilitate improved participation by SDEs in its governance. These objectives assume, of course, the need for SDEs to participate in the multilateral trading system – and, hence, in the WTO – in the first instance, despite the minute share of world trade for which they account. Indeed, there are persons, in both the public and private sectors in SDEs, who do not understand the relevance of participating in the multilateral trading system or who argue that participation might even be inimical to the interests of SDEs. Accordingly, the discussion is preceded by an explanation of why SDEs must participate and why their involvement is, in turn, important to the multilateral trading system.

The issue of the effective participation of SDEs in global governance matters goes beyond the ambit of the WTO's operation to encompass governance in other multilateral institutions, including the United Nations (UN), the International Monetary Fund (IMF) and the World Bank. The UN Security Council, for example, reflects the constellation of Great Powers that existed at the end of World War II, and although small states such as Jamaica have been elected to the Council for short periods of time, one could argue that its dominance by permanent members that awarded themselves veto power is, by any criteria, both unfair and unrepresentative of the broader UN memberships, the majority of which consists of small states, including many SDEs. Similarly, the executive boards of the IMF and the World Bank are anachronistic expressions of the former hegemonic role of the United States and its allies in the international economic system. The convention whereby the United States picks the head of the World Bank and European powers select the managing director of the IMF makes it unlikely that anyone from a small country, regardless of ability, experience and skills, would be chosen even if the majority of the membership supported such a candidate.

The developed countries have held a stranglehold on decision making in the IMF and the World Bank on the grounds of their economic size and because it gives confidence to creditors and investors and assures those countries contributing the most resources. At the same time, the voting arrangement patently disenfranchises the developing countries that constitute the majority of the membership, represent the vast majority of the world's population and are the major borrowers from these institutions. It has been argued that this obvious imbalance in the allocation of votes allows the boards of these institutions to be a manageable size conducive to efficient decision making. However, this is not a reasonable justification because these boards do not have to be enlarged to correct the underrepresentation of developing countries. Rather, the boards' composition and conduct should reflect the tenets of democracy to which these institutions profess to subscribe. Instead, board decisions are made by votes that are based on a formula reflecting relative economic size. For example, when the countries of the English-speaking Caribbean became members of these institutions beginning in the early 1960s, they were assigned to groups in which the country actually holding a seat on the board does not rotate – thus, Jamaica and Canada are in the same group, but the position of executive director on behalf of the group has always been the prerogative of Canada. Despite this discrimination based on economic size, the countries that are the major financial contributors to these institutions are convinced that it is reasonable that they should have significant and disproportionate influence over their policies.

Such a system brings into question the transparency and legitimacy of the decisions, policies and operations of these institutions. As Woodward (2005: 5) notes, although the World Bank is charged with lending to developing countries, “only 9 of the Bank's 24 Executive Directors are from countries eligible

to borrow from the Bank.” In the IMF, according to one of its executive directors,

the G7 exercises great influence in the IMF decision-making process...[and] has become excessive even considering the group’s large aggregate voting share. Although the G7 remain somewhat short of a voting majority, it is highly unlikely that any issue – either policy or country matter – would be approved in the IMF if the group firmly opposed it. The G7 appears in some instances to act as a self-appointed steering committee of the IMF. It drives the policy agenda of the Fund and often acts as a voting bloc. (Portugal, 2005: 2)

Reform of the governance of the IMF was agreed to in April 2008 after protracted and contentious discussions (see Buria, 2003; Woods and Lombardi, 2005; and Truman, 2006). Governors from 175 member countries representing 93 percent of the total voting power in the Fund voted in favour of changes to the quota and voting share structure. The realignment is intended to reflect the relative weight and role of emerging market economies in the global economy, and represents a small step toward a redistribution of voting shares toward dynamic emerging market and developing countries. It is, however, only a very modest reallocation in favour of developing countries – a token increase in their influence. In fact, the initiative will involve a shift of just 2.7 percent of voting rights away from developed countries to developing countries. This response to the longstanding demand by developing countries for a more representative structure of voting rights is thus more form than substance, and leaves the structure of power essentially unchanged. The developed countries will continue to dominate the IMF’s decision-making process.

2. The Participation of SDEs in the Multilateral Trading System

Two questions must be answered about the participation of SDEs in the multilateral trading system – that is to say, in the WTO. First, should they participate at all? If the answer is in the affirmative, what are the compelling arguments to justify their participation? Second, given their minute share of world trade, is the participation of SDEs of any importance to the WTO?

Despite the costs and difficulties involved in participating in multilateral trade negotiations, there are five compelling reasons small states must remain engaged in the WTO and participate as fully as possible in current and future trade negotiations.

The Importance to SDEs of International Trade

One reason is that the highly open structure of SDEs means that, for them, more than for large and developed economies, international trade is large in relation to domestic production, as reflected in their high ratio of trade to gross domestic product (GDP) – in many instances, over 100 percent (Commonwealth Secretariat/World Bank, 2000: 9). Imports are of critical importance in production and consumption, both quantitatively and qualitatively. Growth is therefore extremely dependent on imports and, consequently, on import capacity, which, in turn, is a function of the quantum of foreign-exchange inflows. These inflows are determined by export earnings and net capital inflows – that is, foreign investment, development assistance, loans and remittances. SDEs have greater need for access to external markets than do large economies because the small size of their domestic market and limited resource base constrain opportunities for economic growth. Unfavourable external developments in either imports or exports, including

changes in trade arrangements, can lead to a collapse in earnings or a surge in economy-wide prices, precipitating prolonged periods of severe contraction in the wider economy.

The Vulnerability of SDEs to External Developments

A second reason SDEs need to participate in the WTO is that their exports tend to be concentrated in a small number of primary products and/or agricultural commodities that are exported with minimal processing (see Briguglio, 1999; Gonzales, 2000). This vulnerability becomes acute when export concentration is compounded by exporting to a single overseas market and, in extreme cases, through one company. The dramatic example is the implosion of the economy of Dominica, which depended solely on exports of bananas to the United Kingdom through one company until the banana regime of the European Union was changed. Indeed, acute vulnerability is the structural characteristic that distinguishes SDEs from other types of economies: one report notes that small island developing states are 34 percent more vulnerable than other developing countries (UNCTAD, 2004: 6), while another reveals that 26 of the 28 most vulnerable economies are small countries (Commonwealth Secretariat/World Bank, 2000: 20).¹

Given the importance to them of trade, their acute vulnerability and the ever-expanding coverage of trade agreements, SDEs need to participate actively in trade negotiations in order to shape the rules, the pace of implementation and the extent of adjustment. The already-high exposure of SDEs to external economic events will only increase as trade liberalization proceeds and globalization intensifies the interconnectedness of

¹ These findings are confirmed by Atkins, Mazzi and Easter (2001: 63).

the world's economies. For SDEs, however, the challenge is to mobilize sufficient human and financial resources to cover adequately the plethora of trade negotiations that are conducted bilaterally, regionally and multilaterally.

The Uniqueness of SDEs' Interests

A third justification for the participation of SDEs in the WTO is that, although SDEs are a particular genre of economy – a subset of the category of developing countries – and although the trade interests of SDEs and other developing countries have much in common, the concerns and objectives of the former are distinct and, in some cases, unique. Accordingly, their participation in trade negotiations is necessary to ensure that their particular interests and concerns are recognized and accorded appropriate treatment. As noted above, the uniqueness of some aspects of the international trade agenda of SDEs derives from their structural and institutional features (see also Bernal, 2003).

SDEs are struggling to retain existing preferences in key markets and to establish the principle that small size is an additional constraint on development and should be accorded what is known in trade relations as “special and differential treatment” (see Bernal, 2006). This challenge is illustrated by the situation confronting Caribbean Community (CARICOM) countries. The CARICOM states enjoy preferential market access for trade in goods with Canada through CARIBCAN, with the European Union under the Cotonou Agreement and with the United States through the *Caribbean Basin Economic Recovery Act* and associated legislation. All three trading partners have signalled that reciprocity will be the basis of future trade agreements, but even in such arrangements there is room for special and differential treatment, and CARICOM continues to argue the case for such treatment, not only in the Free Trade Area of the Americas (FTAA) but also in the wider WTO (see Bernal, 1998a).

In the Doha Development Agenda and, to some extent, in the context of the Cotonou Agreement between the European Union and the African, Caribbean and Pacific countries, there is increasing recognition that small states, or “smaller economies,” require a special dispensation in the international trade regime. The Declaration of the WTO Ministerial meeting in Doha, for example, established a work program on small economies. As well, in the now-abandoned FTAA process, there was explicit acknowledgement in several Ministerial Declarations of the need to reflect “differences in size of economies and levels of development” as a basic principle in the negotiations. Moreover, Article 35.2 of the Cotonou Agreement states that the Economic Partnership Agreements, which replace it, shall “take account of different needs and levels of development,...ensuring special and differential treatment...and taking due account of the vulnerabilities of small, landlocked and island countries” (Cotonou Agreement, 2006: 29).

The growing recognition of the validity of the issue is a reflection of persistent advocacy and the availability of research and policy analysis on small, vulnerable economies. The next step in consolidating the empirical and analytical foundation for special and differential treatment of SDEs is to demonstrate the direct link between structural and institutional characteristics of this type of economy and the specific measures of special treatment proposed (see Bernal, 2006). While SDEs should pursue their particular interests in all trade negotiations, they have to give special attention to deliberations in the WTO, as these establish a template that underpins other trade agreements.

Enhancement of SDEs' Negotiating Leverage

A fourth reason SDEs need to participate in the WTO is that a rules-based regime for the conduct of international trade and

the resolution of disputes arguably is of more importance to small countries than to large ones. This is because it is through this type of arrangement that small states can increase their limited leverage through consensus decision making and the use of strategic alliances. Multilateral negotiations provide an opportunity for small countries to have a measure of countervailing power against the overweening power of large entities such as the United States, the European Union, Brazil, India and China. Large countries, particularly highly developed ones, wield near-dominant influence due to their market size, share of world trade and political power. The mere threat of trade action by a large country can disrupt global markets, impede market access and unsettle production and investment. They can also profoundly influence the course of trade negotiations. Small countries, in contrast, have limited influence on trade negotiations because their small national markets and insignificant share of world trade provide little or no leverage in bargaining. Their best prospect for influencing trade policy is a strong, rules-based multilateral trading system. Another argument in favour of their participation is to ensure that a transparent, democratic decision-making process based on consensus tempers differences in national power and economic size.

Outside of a multilateral framework, the results of trade negotiations between countries that differ in size, power and development are invariably asymmetrical to the disadvantage of the smaller, less-developed country. Messerlin described these outcomes as “reverse” special and differential treatment (2006: 226).

The Protection of the Rights of SDEs

Finally, SDE participation in the WTO is important because, by establishing clear disciplines applicable to all WTO member

states, multilateral trade rules prevent, or at least limit, arbitrary behaviour by large governments and ensure greater predictability in trade relations. It also curtails the abuse of power that can occur between countries that are vastly different in size, level of development and power. By their participating in multilateral institutions such as the WTO, the rights of small states are more likely to be insulated, at least partially, from the hegemony and pressure that larger and more powerful countries can exert.

Attaining rights in a multilateral trade system is one thing, but ensuring that these rights are respected, or at least not disregarded, is another hurdle altogether. The most propitious circumstances for small states to protect their rights is when there is a rules-based system with a built-in enforcement mechanism. Small states can have recourse to the WTO dispute settlement mechanism to vindicate their rights free of the disparity of power that would operate in a bilateral situation. For example, tiny Antigua and Barbuda, with a population of only 90,000 and an economy dependent on services (tourism and financial services) for approximately 90 percent of its GDP and exports, took on the mighty United States in the WTO in a dispute over Internet gaming and won. This ruling demonstrated not only that the smallest of trading partners can have their grievances adjudicated in the WTO, but also that they can have their rights and privileges enforced and that larger countries can be compelled to adhere to multilateral rules.

Despite notable instances of success, however, small countries in general have limited administrative capacity and resources with which to use the provisions of the WTO's dispute settlement mechanisms as often as they would like. The cost of participating in such proceedings is high, and SDEs have limited capacity either to initiate or to defend cases. Current negotiations in the WTO seek to address these institutional issues, and it is important

for small states to participate actively in these discussions to ensure that their interests are reflected and advanced in any changes to the current dispute resolution regime.²

3. The Importance to the Multilateral Trading System of Participation by SDEs

While the volume and value of the trade of SDEs constitute a very small share of total world trade, there are some important reasons their participation is critical to the multilateral trading system.

The Large Number of SDEs

One reason is the sheer number of SDEs. Although there is no single definition of an SDE, since size is a relative concept, population size is often suggested as a criterion. If the figure of 10 million is employed, there would be 134 countries, meaning that the majority of states in the world were small. If a population of five million is used as the upper limit, there would be 89 small countries. According to the criterion of 1.5 million used by the Commonwealth Secretariat and the World Bank, then there are 49 such states.³ Another definition, that of a small vulnerable economy – the term that has emerged in discussions in the WTO – is an economy whose share of world trade is less than 0.05 percent. This threshold would encompass 86 WTO members

² The WTO's decision-making process, while far from perfect, is in stark contrast to other, less representative and transparent bodies. This is graphically illustrated by the establishment by the Organisation for Economic Co-operation and Development (OECD) of the Financial Action Task Force, which created multilateral standards and regulations that were formulated without inputs from many SDEs that could be affected by their application.

³ For discussions of various population sizes as definitions of SDEs, see Kuznets (1960: 5); Demas (1965: 2); Chenery and Syrquin (1975); Streeten (1993: 197); Commonwealth Secretariat (1999: 8–10); and Commonwealth Secretariat and World Bank (2000).

(see Grynberg and Remy, 2003: 275). Whatever definition is chosen, however, most WTO members are small, and of those, most are SDEs, many of them having come into existence since World War Two.

The Need for a Seamless Global Economy

Another reason the participation of SDEs is important is that the creation and operation of a seamless global economy is not possible unless all states, regardless of size and level of development, are full participants in regimes of multilateral rules. An SDE that allowed activities not permitted under a rules-based multilateral trading system or whose national regime diverged significantly from those of most states, even under the threat of retaliation, could disrupt the functioning of global markets. For example, a deficient anti-money-laundering regime could undermine the efforts of other countries to prevent this illegal activity. Similarly, the absence of a comprehensive intellectual property rights regime would deprive creative industries of earnings to which they are entitled. The most dramatic illustration is the existence of offshore financial centres. The Cayman Islands is the best known of these, but several SDEs are of growing importance in the rapidly expanding area of international financial transactions.

4. How SDEs Can Participate More Effectively

The participation of SDEs in WTO decision making has not been as effective as it could be. This is indicated by the failure to attain key objectives such as progress on the work program on small economies mandated by the WTO Doha Ministerial and the failure to organize a cohesive small economy caucus. Indeed, one could make a similar diagnosis about the performance of most developing countries, which grapple with many of the same problems and constraints (see Page, 2003).

SDEs often find the cost of participating in the negotiation and adjudication of rules in the multilateral trading system to be onerous, even prohibitive. The involvement of ministries of trade is hampered both by fiscal constraints and the failure of cabinet colleagues – in particular, finance ministers – to appreciate fully the immediate and long-term repercussions of changes in WTO rules and provisions. Unfortunately, in many cases, small countries must limit their participation to a few ministerial-level meetings, and even then, their participation is heavily dependent on funding from multilateral financial institutions and bilateral donor agencies in developed countries, whose interests, ironically, may be diametrically opposed.

Three areas in which there is an urgent need for improvement in order for SDEs to participate more effectively are with respect to their representation, their institutional capacity to become involved and their need to cooperate with each other to improve their ability to advocate collectively.

Representation

An important limitation on the effective participation of developing countries is their lack of representation in the WTO. Many, particularly among SDEs, do not have representation based in Geneva, and attend only periodically by way of their diplomatic missions in such cities as Brussels, Paris and London. This problem is illustrated by the 14 countries of CARICOM, only three of which – Barbados, Jamaica and Trinidad and Tobago – have WTO representation at the ambassadorial level; the others have accredited their ambassadors in London and Brussels, and in the case of Antigua and Barbuda, its ambassador to the United Nations in New York. The smallest CARICOM countries, which form the Organization of the Eastern Caribbean, have

combined to be represented by a technical mission funded by international donors.⁴

Moreover, even when an SDE has representation, it typically consists of just one or two people, far too few to cover adequately the myriad issues that constitute the subject matter of the WTO – let alone to attend the 1,200 or so meetings of WTO bodies that take place every year (see Michalopoulos, 1998; Hoekman and Kostecki, 2001). In some weeks, as many as 50 meetings are scheduled, not including numerous informal consultations. Clearly, one- or two-person missions make it impractical for representatives of SDEs to serve as chairs of bodies and committees of the WTO, which further diminishes their influence.

The remedy would be to mobilize and deploy more financial resources, which would allow SDEs greater scope to attend relevant meetings. This would involve improving the understanding of the importance of trade negotiations beyond the ministries responsible for trade, and inserting trade policy in the mainstream of public policy in SDEs. Additional funding for such purposes might be difficult to obtain, however, given competing claims on scarce resources for more palpable, immediate and politically sensitive demands such as school, roads and hospitals. Local resources could be supplemented by development assistance from bilateral donor agencies, international organizations and multilateral financial institutions. However, both potential sources have a strong aversion to funding travel, preferring to finance training, call-down expertise and capacity building.

⁴ Similarly, the establishment of the mission of the Pacific Island Forum – consisting of Papua New Guinea, the Solomon Islands, Samoa, Vanuatu and Tonga – to the WTO in March 2004 with five years of funding from the European Union enabled these countries to participate more effectively through shared representation (Bowman, 2005).

Institutional Capacity

The limited institutional capacity of SDEs severely constrains their ability to conduct technical work, to formulate negotiating positions that reflect their interests and to increase and maintain the capacity for trade policy formulation and negotiating strategies. In some small states, the ministry responsible for trade or the department for international trade in a ministry responsible for several subjects has a staff as small as three officials. Apart from inadequately staffed trade ministries, SDEs also may lack computer and communications equipment, resources to conduct systematic outreach to stakeholders, constrained information-gathering and dissemination capability and insufficient access to training and research (see Bhuglah, 2005: 65–69).

The solution to limited institutional capacity is more collaboration, sharing and rationalization of resource use among SDEs. This cooperation could take a variety of forms, including common entities to undertake technical work, formulate shared positions, coordinate negotiating strategies and undertake joint representation.

Collaborative institutions and joint representation are easier for countries that are in close physical proximity, as in the case of the CARICOM countries. For example, faced with the unprecedented task of simultaneous negotiations in the WTO and with the European Union, as well as several bilateral initiatives, the CARICOM countries decided to establish a single regional organization, the Caribbean Regional Negotiating Machinery (CRNM). The purpose of the CRNM is to “assist member states in maximizing the benefits of participation in global trade negotiations by providing sound, high-quality advice, facilitating the generation of national positions, coordinating the formulation of a unified negotiating strategy for the

region and undertaking/leading negotiations where appropriate” (CRNM, n.d.: 5).

The CRNM fulfils the functions of technical advice, monitoring, analyzing, reporting, coordinating common positions and negotiating (where appropriate) on behalf of member states. It has offices in Jamaica and Barbados, deploys representatives in Brussels and Geneva and provides technical support staff to some member states and subregional organizations. The office in Brussels has given CARICOM countries a means to interface with EU officials and negotiators and has helped ambassadors to complement their diplomatic efforts with those of negotiators in the formation of an Economic Partnership Agreement between the EU and CARIFORUM (that is, CARICOM and the Dominican Republic).

The CRNM’s Geneva-based team of two technicians provides day-to-day support to CARIFORUM missions, including attending meetings with the Permanent Representatives, and prepares reports for staff in the CRNM offices in Jamaica and Barbados. These form valuable inputs into the papers and reports that guide the formulation of negotiating positions in the WTO. The work of the technicians in Geneva is supplemented by technical experts specializing in specific subject areas such as services, agriculture and intellectual property rights. The CRNM also provides an officer to accompany ministers who attend meetings in such widely dispersed locations as Seattle, Doha, Cancun, Hong Kong, New Delhi, Cairo, Paris and Geneva itself.

Since the cost of the CRNM’s activities are beyond the scarce financial resources of its small member states, slightly more than half its budget comes from grants from bilateral donor development assistance agencies and multilateral financial institutions. Additional funding is provided by the Commonwealth

Secretariat and the Caribbean Development Banks. Funds help to defray expenses such as salaries, travel, accommodation, studies and call-down expertise. During the negotiations with the European Union, resources from various European agencies and institutions were indispensable to meeting the expense of conducting more than 30 technical working groups over a three-year period.

The advantages to CARICOM of the operation of the CRNM include:

- pooling limited human resources to allow each country to undertake the necessary technical work;
- reducing the cost of undertaking external trade negotiations by permitting member states to share the cost of the technical preparations of negotiating positions;
- reducing the cost of representation at meetings;
- strengthening the negotiating positions of member states by helping them to agree on common negotiating positions and the articulation of joint statements; and
- providing technical assistance to member states through technical studies, consultations, briefings and training in order to fashion national trade policy, use dispute settlement mechanisms, access donor resources and build and improve institutional capacity.

Cooperation for Collective Advocacy

There is an urgent need to create a cohesive and effective strategic alliance among SDEs in the WTO. Indeed, such a caucus could operate in all the international forums and institutions in which these states have vital interests. In the WTO, there is an informal group of poor countries that regard themselves as “small economies,” but a caucus of SDEs that meets on a regular basis has not been organized despite the existence of a work

program on small economies.⁵ This is in contrast to the now largely moribund FTAA, whose Consultative Group on Smaller Economies was an integral component of the structure of negotiations (see Bernal, 1998). Even though there is not yet an accepted definition of SDEs in the WTO, this should not prevent the emergence of a caucus. Indeed, such a group could permit participation by any member state that considers itself to be an SDE. So far, cooperation among SDEs in the WTO has been limited to the margins of ministerial meetings. In Cancun, for example, the CARICOM countries drafted and, after consultation with other interested parties, amended and then presented a statement on issues relevant to small economies.

In some international forums where SDEs have established formal associations to advocate their cause, they have been successful. For example, an Alliance of Small Developing States (AOSIS) was formed in November 1990 as a negotiating body for the first meeting of the Intergovernmental Negotiating Committee for a Framework Convention on Climate Change in February 1991. As a direct result, language on small island developing states was included in the final text of the United Nations Framework Convention on Climate Change (see Ashe, Van Lierop and Cherian, 1999; von Tigerstrom, 2005). AOSIS now has 43 members and observers, 37 of which are members of the UN, accounting for 20 percent of the UN's total membership.

While SDEs are attempting to enhance their role and influence in WTO governance, this has proven difficult and has inhibited their nascent awareness of themselves as a distinct interest group. The process of forming and operating as a coherent

⁵ For an overview of the early development of issues related to small economies in the WTO, see Tulloch (2001).

group has been complicated by cultural, linguistic and economic differences, which are characteristic of any group of disparate countries. The coalescing of solidarity has also been seriously inhibited by the text on small economies in the WTO Ministerial Declaration of Doha, paragraph 35 of which states:

We agree to a work programme, under the auspices of the General Council, to examine issues relating to the trade of small economies. The objective of this work is to frame responses to the trade-related issues identified for the fuller integration of small, vulnerable economies into the multilateral trading system, and not to create a sub-category of WTO Members. (WTO, 2001)

Similarly, paragraph 41 of the Ministerial Declaration of the Hong Kong meeting states:

We reaffirm our commitment to the Work Programme on Small Economies and urge Members to adopt specific measures that would facilitate the fuller integration of small, vulnerable economies into the multilateral trading system, without creating a sub-category of WTO Members. (WTO, 2005)

Twenty-two countries participate regularly in the Small and Vulnerable Economies Work Programme of the WTO.⁶ Yet their involvement in the work program is an act of faith because of the obvious contradiction of developing measures for a type of

⁶ These are Antigua and Barbuda, Barbados, Bolivia, Cuba, Dominica, the Dominican Republic, El Salvador, Fiji, Grenada, Guatemala, Honduras, Jamaica, Mauritius, Mongolia, Nicaragua, Papua New Guinea, Paraguay, the Solomon Islands, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines and Trinidad and Tobago.

economy that the WTO does not recognize. Moreover, their ability to arrive at specific recommendations is undermined by the fact that participation in the work program is open to all member states, and large developing countries and developed countries sometimes attend its meetings. The differences in perspective that are aired in the deliberations are accentuated by the involvement of Mongolia, which is neither developing nor small.

5. Adapting the WTO to SDEs

Reforming the governance process of the WTO to make it more responsive to SDEs must be pragmatic if it is to have any chance of success. Therefore, proposals to effect change cannot be part of a grand design, say, to bring all the principal economic multilateral institutions – the IMF, the World Bank and the WTO – under the umbrella supervision of the Economic and Social Council of the UN General Assembly, as advocated, for example, by Cavanaugh and Mander (2004: 314–15). The prospects of this happening are remote, as are even more far-reaching schemes of an entirely new global governance structure such as a global parliament (see Archibugi and Held, 1995; Monbiot, 2003). Payne summarizes recent attempts to improve the WTO process as “palliatives and do not come close to addressing the core problem of how to resource sufficiently the smaller, weaker, poorer countries so that they too can work the WTO’s relatively representative procedures to their advantage” (2005: 119). Nonetheless, the changes proposed in this paper are, at most, reformist, based on the recognition that countries that exercise a dominant influence in the WTO are unlikely to yield willingly to ideas and actions designed to diminish their position. In that sense, the proposals here have a more realistic chance of success.

SDEs need to redouble their efforts to participate more effectively in the WTO by improving their representation, enhancing their institutional capacity and creating a cohesive SDE caucus. At the same time, the WTO itself should complement the efforts of SDEs by becoming more inclusive and supportive, democratizing decision making, adjusting the procedures and schedules of meetings and expanding the provision of technical assistance. Such an adaptation of the WTO to SDEs would help make the institution more user friendly to these member states by reducing the cost and difficulty of their involvement and strengthening their participation.

Democratizing Decision Making in the WTO

The WTO's decision-making process, while formally by consensus, is in reality dominated by a small number of developed countries and some of the larger emerging economies (see Jawara and Kwa, 2003; Wallach and Woodall, 2004). "Consensus" does not mean unanimity; rather, it means that no country present in a meeting strongly objects to the proposed decision and (that one or a few member states cannot block decisions "unless it happened to one of the major trading nations" (Hoekman and Koslecki, 1995: 40). In other words, the power exerted by the developed countries overwhelms the formal decision-making rules. Developing countries that do not acquiesce to the position of the most powerful countries are "subjected to special persuasion or are marginalized or isolated" (Khor, 2003: 533). The operation of this power asymmetry among member states is an important contributor to what has been described as the "deficit of democracy" and, therefore, a cause of the WTO's so-called legitimacy crisis (see Esty, 2002).

Criticism of the current decision-making process is widespread and especially strident among developing countries and

nongovernmental organizations (see, for example, Third World Network, 1999). The growing importance of countries such as China, India, and, to a lesser extent, Brazil and South Africa is also prompting them to demand a greater voice in WTO decision making. Little attempt has been made, however, to reform the process. Symptomatic of the inertia is the failure of a report to the director-general, *The Future of the WTO*, to make any constructive proposal on such reform (WTO, 2004), although it does concede that “consensus favours Members that can afford to be present at all meetings, since absence – or abstention – does not itself defeat a consensus” (63).

From the perspective of SDEs, reform of the WTO decision-making system must involve greater transparency and breaking the hegemony of the developed countries, notably the United States, the European Union and Japan. Obviously, their traditional dominance reflects the reality of their political and economic power and commanding shares of world trade. Their pre-eminence has been institutionalized, however, in what is known as the “Green Room” process. It is true that what was exclusively a “club” of rich and powerful countries has been broadened in recent years to include some key developing countries and others representing various groups of countries such as the least developed ones (see Keohane and Nye, 2001). Nonetheless, the Green Room process is still a point of contention for many members, as it deprives the WTO of the transparency and, ultimately, legitimacy that can be established only by an inclusive, democratic system.

If the voice of the SDEs is to be heard and their issues made “visible,” decision making in the WTO must become meaningfully transparent, open, participatory and democratic. One way to correct deficiencies in the decision-making process would be to establish some kind of executive committee of, say, 25 countries, consisting of the ten with the largest share of global trade and

fifteen others elected by a democratic process (see Sutherland, Sewell and Weiner, 2001: 99–100), with candidates selected to ensure representation of all regions or categories of economies (see Bernal, 1999; Schott and Watal, 2000). A similar proposal calls for a 24-member advisory council with permanent seats for major trading countries and the remaining seats shared among the rest of the membership by rotation (Blackhurst, 2001). Others have emphasized flexibility, arguing, for example, that “the variable geometry of trade issues suggests that the composition of the board for any given topic should be issue driven, with grouped seats determined by agreed-upon proxies of the various interests involved and assigned to a representative country” (Jones, 2004: 163–64).

SDEs are also concerned about the conduct of ministerial meetings, which, in recent times, have witnessed the nonapplication of Rules of Procedure of the Ministerial Conference, the expanded role of the chair of the ministerial meeting and the proliferation of covert, informal meetings. Chairs of ministerial meetings are supported by others who oversee important committees. The method of their selection is a mystery, suggesting there are no objective criteria for the decision. From personal observation, however, it is likely that the selection emerges from discussions between the chairing minister and the director general, with the tacit approval of the United States and the European Union. Generally, ministers of the major countries opt not to chair, leaving themselves free of long, tedious and often meaningless meetings to engage where the real action is, which takes place among themselves and in the Green Room process.

Increasing Technical Work on SDE Issues

WTO staff, particularly senior officials, are custodians of the principles and rules of the WTO. They influence the technical

work that informs options discussed by member states and, when the membership is divided over an issue, they are called upon to devise solutions and proposals for compromise. Technical staff also draft the position papers underpinning chair reports that are circulated as the basis of negotiation. They are particularly influential because they are specialists, often with many years of experience in advising ambassadors and officials who are temporarily serving at WTO missions and who lack comparable technical knowledge and experience.

Despite the WTO's large number of SDEs, they are under-represented in the WTO Secretariat, especially at the senior technical and managerial levels. The consequence of their lack of presence among WTO staff is the relative neglect of issues of importance to them and of the perspective they can bring to bear on the resolution of such issues. Accordingly, the establishment of a unit dedicated to SDEs is, in my view warranted even if it requires additional staff and financial resources. In this regard, George Soros is correct when he points out that “under-resourcing” of the WTO prevents it from protecting the least developed countries (2002: 53–54).

Financial Support for Representation

Another way in which the WTO could help SDEs participate more effectively is to provide financial and other forms of assistance to offset or substantially reduce the cost of maintaining adequate staff missions in Geneva. Financial assistance could be drawn from the WTO budget or from a specially arranged fund contributed to by the OECD countries and multilateral financial institutions such as the World Bank.⁷

⁷ Blackhurst (1997) makes a similar proposal, but does not confine it to SDEs.

In-kind support could also be provided in the form of rent-free office space⁸ and funding for senior officials to travel to key meetings.

An example of support is the establishment and operation of a joint technical support mission in Geneva for six SDEs from the English-speaking Caribbean. These countries currently have nonresident ambassadors based in Brussels, London and New York, and in St. George's, Grenada. Given that these countries are in the process of integrating their economies, it would be prudent for them to have a single resident ambassador on behalf of all six countries. The European Union also provides funding to groups of SDEs in the Caribbean and Pacific to facilitate the establishment and operation of representative offices in Geneva; it also provides expert technical advice to the missions. The physical presence of officials in Geneva allows these countries to participate in more WTO meetings, enabling them to improve the extent and quality of their reporting to officials back home. Their more active involvement has also strengthened their influence and bolstered support for work on issues of concern to them.

The participation of these small states has other beneficial spillover effects. It has raised the awareness of the importance of the WTO both in these countries and among countries that have not previously been able to contemplate the cost of WTO membership. The experience of working in the WTO milieu has also been superb training for technicians and negotiators, thereby directly improving their institutional capacity on international trade issues and the formulation of trade policy. As

⁸ Condor (1999: 3) suggests the establishment of an international house in Geneva for countries with fragile economies and financial constraints.

their technical capability has improved, these countries are in a better position to identify and articulate issues peculiar to their circumstances. It has also allowed SDEs to allocate scarce resources more effectively in various WTO forums and to gain access to technical assistance from Geneva-based institutions in order to help them implement their WTO commitments.

Expanding Technical Assistance

Among SDEs, the continuing need for technical assistance – to improve their institutional capacity for trade policy analysis and to participate in negotiations – is acute (see Salicrup and Vergara, 2000). Yet the WTO allocates less than 1 percent of its budget to technical cooperation, relying on trust funds provided by two or three bilateral donors (Stiglitz and Charlton, 2005: 170). The WTO's dispute settlement mechanism, for example, is so costly in terms of time, money and technical expertise that most SDEs are unable to make efficient and continuous use of it or to pursue cases effectively. Sometimes, SDEs have been able to participate in the process only if private sector interests, including foreign firms, have provided financial resources for legal services, travel, accommodation and public relations. Such support, however, is not necessarily desirable if there is pressure to advance positions that reflect the interests of a particular firm or industry rather than those of the SDE.

The WTO has established an Advisory Centre on WTO law to provide legal advice to developing countries in dispute settlement proceedings, but this support is inadequate. What is needed is a consortium of international development institutions and bilateral development agencies specifically to provide technical assistance to SDEs, whether or not they are members of the WTO. There is also some movement toward greater cooperation

to support trade-related technical assistance, but much more needs to be done. The Integrated Framework for Trade-Related Technical Assistance, a cooperative venture of the WTO, IMF, World Bank, UNCTAD, the United Nations Development Programme and the International Trade Centre, was slow to become operational and urgently needs to be expanded. It has been criticized for failing to execute the important mandates of inserting trade policy into national development strategies and linking trade policy to poverty-reduction strategies (see UNDP, 2003: 338–39).

Countervailing Measures

The WTO could become far more amenable to the interests and capacities of SDEs if measures were introduced to countervail the effects of disparities in size and development. For example, the operations of the dispute settlement mechanism should ensure that special and differential treatment is applied in disputes between developed countries and SDEs (see Ewart, 2007). Also, in many instances, it is not feasible for an SDE to apply effective sanctions on larger, more developed countries to force their compliance with dispute settlement rulings. In such cases, the injured party should be able to apply to an arbitration panel under, say, the General Agreement on Trade in Services (GATS) for the imposition of a countervailing measure. In the case of Antigua's dispute with the United States over Internet gambling, the panel granted Antigua the right to suspend obligations under the Agreement on Trade-related Aspects of Intellectual Property Rights up to the level of the damages awarded. The panel justified this dispensation on the basis that the "extremely unbalanced nature of the trading relations between the parties makes it...difficult for Antigua to find a way of ensuring the effectiveness or other obligations against the

United States” under the GATS.⁹ Finally, in order to encourage compliance with a ruling in favour of an SDE, WTO members should be authorized to suspend concessions and obligations to the noncompliant member (see Sarooshi, 2003).

6. Conclusion

To break or dilute the stranglehold of the developed countries and large emerging economies on WTO governance, the various streams of disenchantment will have to coalesce into a sufficient critical political mass to press for change. Such a coalition would consist predominantly of developing countries that share many of the disabilities of SDEs. The cohesiveness of such an alliance would be difficult to maintain, however, especially if a few large developing countries are admitted to the “club.” Already, the protracted negotiations of the Doha Development Agenda and the increasing assertiveness of developing countries in WTO ministerial meetings have led to a new power configuration, with Brazil and India now constituting a power quartet with the United States and the European Union. The new prominence of such countries is indicative of their weight in world trade, the centrality of agricultural issues and the assumption that they are the logical and accepted spokespersons of the developing countries. But reform of the governance system of the WTO has not been a priority for these newly arrived club members, and it would be unfortunate if their recently achieved status has made governance reform less urgent and relevant to the attainment of their interests. The elevation of such developing countries to leadership positions should not be mistaken for change in the governance process, and is no substitute for a concerted and

⁹ “WTO to determine worth of gambling concession,” *BRIDGES*, February 2008. Pp. 12.

persistently prosecuted campaign by SDEs to reform governance in a way that allows for their adequate participation. In their quest for changes aimed specifically at their particular needs, the SDEs cannot take for granted the support of other developing countries (see Grynberg and Remy, 2003).

Given the importance of international trade to SDEs, it is imperative for their future growth and development that they have more influence in the formation, application and enforcement of the rules of the WTO. For SDEs, a rules-based multilateral trading system offers the best possibility to protect their interests and rights. More influence, however, will require their more effective participation, starting with consistent attendance at WTO meetings and a strengthened institutional capacity to participate. Since such measures often are beyond the resources of individual SDEs, political cooperation and technical collaboration will be necessary for efficacious collective advocacy. The efforts of SDEs to participate effectively in the WTO should be complemented, however, by reform of the WTO to make it more user friendly. This could be accomplished by democratizing the process of WTO decision making and by providing financial support to assist SDEs to meet the cost of representation and participation.

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