The Political Economy of the World Trading System

The WTO and Beyond

Second Edition

BERNARD M. HOEKMAN
MICHEL M. KOSTECKI

OXFORD UNIVERSITY PRESS
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To Adriaan, Alexandre, Isabelle, and Thomas
PREFACE

Starting as an obscure trade agreement, unknown to most citizens of participating countries, by the early 1990s the General Agreement on Tariffs and Trade (GATT) had become a prominent institution. The Uruguay Round of multilateral trade negotiations, held under its auspices during 1986–93, played an important role in raising its public profile, catapulting it into the limelight for the first time in its history. The Uruguay Round led to the creation of the World Trade Organization (WTO), and expanded the coverage of the multilateral trading system to include trade in services and intellectual property rights.

At the time the first edition of this book was being written (1993–4), no readily accessible, yet comprehensive, introduction to the economics and politics of the trading system existed. The GATT was a rather reclusive institution. Information about its operation was not easy to obtain. Many documents were confidential, with distribution restricted to government officials. This situation changed dramatically subsequent to the establishment of the WTO and the concurrent emergence of the Internet. A plethora of WTO documents and reports can now be downloaded freely from the WTO home page (www.wto.org). Greatly expanded coverage of the institution in the press—both print and online—also makes it much easier than in the past to remain up-to-date with respect to WTO-related events. At the same time, interest in the WTO has increased. The WTO is repeatedly at the center of highly visible and public disputes on issues that go beyond trade and concern large groups of people. Examples are disputes between the US and the European Union (EU) on the use of hormones in beef, and disputes between the US and other WTO members regarding the extra-territorial application of US laws. Some argue strongly that the institution needs to expand its mandate and develop clear rules of the game in these areas, others argue equally vehemently that it needs to be scaled back.

As in the first edition, the bulk of the material in this book is devoted to systemic and conceptual questions relating to the functioning of the trading system. What matters in this connection is not only an understanding of the rules, but also the political and economic forces that sculpted them, and the incentives for countries to abide by them. Governments are not necessarily the social welfare-maximizing entities found in introductory economics textbooks, but develop policy subject to the pressures of a variety of interest...
groups. A political economy approach helps to understand how the WTO functions, why the GATT was very successful in reducing tariffs, and why it has proven much more difficult to expand the reach of multilateral disciplines to domestic policies that have an impact on trade.

This second edition is almost a complete rewrite. It updates all data and references to the rapidly expanding literature, including relevant Internet web sites. All chapters have been revised extensively, and a number are new. A significant amount of new material on the operation of the WTO has been added. This includes discussions of the dispute settlement mechanism, the outcome of sectoral negotiations undertaken since the conclusion of the Uruguay Round in 1994, the experience with the process of accession, participation by developing countries, the role and interests of nongovernmental organizations in the trading system, concerns regarding the governance and legitimacy of the WTO, and the need for multilateral rules on investment and competition. More boxes and examples have been incorporated into the text to relate the operation of the trading system to the real-world economic interests that underpin and are affected by it. A new annex has been added providing a succinct introduction to basic economic concepts and tools that are helpful in understanding the effects of trade policy instruments and key WTO disciplines.

To enhance the readability of the book we have kept footnotes to a minimum and avoided the use of endnotes altogether. This implies that readers will not find detailed references to WTO cases and documents. Information on all WTO dispute settlement cases discussed in this book can readily be found on the home page of the WTO and in the specialized works cited at the end of each chapter. There is an immense legal literature on WTO issues and cases—one objective we had in writing this book was to complement the many legal articles and books by focusing more on the policy, economic and development-related aspects of the trading system.

We owe a substantial intellectual debt to those who have written on various aspects of the multilateral trade regime, to many members of the WTO secretariat, both past and present, as well as to numerous trade negotiators, government officials and scholars. Some of the material used in this book draws on joint work and interactions with numerous colleagues and friends, including Kym Anderson, J. Michael Finger, Joseph Francois, Peter Holmes, Michael Leidy, Patrick Low, Aaditya Mattoo, Petros C. Mavroidis, Patrick Messerlin, Carlos Primo Braga, Jayanta Roy, Kamal Saggi, Maurice Schiff and L. Alan Winters.

We are indebted to Petros C. Mavroidis for reading and commenting on drafts of both the first and second editions of this book, to Mark Koulen for identifying sins of commission and omission in the penultimate draft of the
manuscript, to Maarten de Groot, Maria Kasilag, and Francis Ng for pulling together data and preparing the figures, and to Lili Tabada for helping to put together the Index.

We are also grateful to Marco Bronckers, Rashad Cassim, Bill Davey, Alan Deardorff, Ishac Diwan, Alice Enders, Philip English, Simon Evenett, Mike Finger, Gary Horlick, Henrik Horn, Bob Hudec, Serafino Marchese, Will Martin, Keith Maskus, Aaditya Mattoo, Patrick Messerlin, Costas Michalopoulos, Marcelo Olarreaga, Pier Carlo Padoan, David Palmeter, Carmen Pont-Viera, Garry Pursell, Frieder Roessler, André Sapir, Richard Snape, T.N. Srinivasan, Bob Stern, David Tarr, Diana Tussie, John Whalley, John Wilson, Alan Winters, Jamel Zarrouk and B.K. Zutshi for helpful comments, discussions and suggestions along the way. Last but not least, we are indebted to Maria Kasilag for her invaluable assistance in preparing the camera-ready copy of the manuscript and finalizing the index, to Yvette Fischer, Rebecca Martin, and Ana Rivas for helping bring the project to fruition and to the University of Neuchatel for financial support. None of the above is responsible for the views expressed in this volume or any inaccuracies. That responsibility is ours alone.

B.M.H.
M.M.K.
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