Accountability is Not Always Good

The World Trade Organization (WTO) is an international body mandated by its members to uphold multilateral trade agreements and to mediate disputes among those members. Like the UN, the WTO is a one-country one-vote institution. The rationale behind such a voting system is to limit the power of larger states. In theory, the one-country one-vote system should give developing countries significant control over WTO policy, since they comprise a majority of the membership. In practice, however, the major developed powers, particularly the US, the European Community (EC), Japan, and Canada (collectively known as the Quad countries) manage to control the WTO's agenda and therefore most of its actions. They have used this control to wrest lucrative concessions from developing countries, while simultaneously reneging on most promises to liberalize their own markets.

How do the US and EC (more so than Japan and Canada) continue to dictate WTO policy when they have so few votes? Influence over developing countries is exerted through multiple channels, including loans from the World Bank and IMF, direct bilateral aid, control over debt reduction, and threats to single out small countries for specific economic punishments. These mechanisms fall into the broad category of side-payments: external tools to influence voter preferences during WTO negotiations. In the context of the voting system, powerful players can single out weaker ones and attempt to “buy” their support through a combination of threats, promises, and outright bribes (though perfectly legal ones). If enough developing countries can be bought or pressured into agreement, developed countries can secure favorable terms of trade, protecting their own markets while enjoying access to the markets of others.

How might the WTO move closer in reality to its one-country, one-vote structure? A crucial characteristic of the present system is public voting. That is, accountability for votes allows powerful countries to identify and then penalize those who opposed them. Therefore, a possible approach to equalize voting power is to make voting anonymous. With a secret ballot, developed countries that seek to dictate the agenda through side-payments would have greater difficulty enforcing threats, since they would not know for certain who voted against them. This change in voting structure certainly would not eliminate the ability of powerful countries to have more than their one vote’s worth of influence on the WTO process, but it could reduce this disparity substantially. Critics might argue that there are
drawbacks to secret balloting, notably the lack of transparency; but in the context of the WTO, these losses seem small relative to the gains of the more equitable power structure that this organization was designed to reflect.

The International Monetary Fund (IMF) and the World Bank (WB) both use systems of proportional representation, tying vote share to monetary contributions. Since contributions are related to the size of a country’s economy, voting power in the IMF and WB are therefore linked to economic power. Over the years, this voting structure has led to numerous accusations that the US and Europe use their electoral dominance of these institutions for political purposes. Many claim the US has given better lending terms to countries it viewed as cooperative and has blocked loans to countries that openly opposed it. Additionally, because key decisions require 85% of the vote, and the US has a 17.08% vote share, this proportional voting system has given the US a veto on any major decision made by the IMF.

In contrast, the WTO, like its previous incarnation, the General Agreement on Tariffs and Trade (GATT), grants each member country one vote through an appointed trade representative. This mandate was intended to help prevent domination by larger countries that might otherwise dictate unfair trade terms. Furthermore, the GATT/WTO has a strong tradition of favoring consensus whenever possible. Even on the rare occasions when a vote is called for, any significant legislative change requires a two-thirds majority, or for changes to negotiated treaties, a three-quarters majority. With 148 countries in total, the developed world has a relatively small vote share. Even given that the EC gets 26 votes (one for each member country and one for the EU itself), developed countries comprise less than a third of WTO members. As the WTO has expanded, that proportion has declined over time. Even as a few countries make the change in status from developing to developed or from least-developed to developing, their trade interests relative to the Quad country agenda rarely change significantly. Regardless of which other countries reach the same label as “developed,” US and EC interests are their own.

Despite their clear minority position measured in votes, the Quad countries have dominated all major GATT or WTO negotiations. Examples abound, but two particularly clear illustrations of their success are the TRIPS agreement and WTO regulation of agriculture.

TRIPS, or trade-related aspects of intellectual property rights, was negotiated in conjunction with the transition from GATT to the WTO in 1995, along with the General Agreement on Trade in Services (GATS). It incorporated international intellectual property law into WTO legal jurisdiction, allowing complaints of infringement to be brought under WTO judicial rules for dispute
resolution. Since developed countries generate the vast majority of patents, this agreement strongly favors those countries. It is their IP that is being protected. Thus, developing countries gave up their ability to choose on a case-by-case basis which patents they would acknowledge. Instead, they effectively surrendered that authority to the patent offices of other countries, hurting various domestic industries in developing countries since prices for IP are now dictated to them and sanctions can be brought if a country’s industry is found to be using IP illegally. It has caused particular damage to the generic pharmaceutical industries of developing countries like India and Brazil, where the new restrictions of IP rights hurt domestic industry to the point where production or export of many drugs is no longer economically viable. In addition, existing pharmaceutical patent law had only allowed the patenting of production methods, not the final result. Drug companies in developing countries had focused their research and development spending on creating alternate, more cost-effective methods of production, which they could use legally to manufacture the same drug. Under the new rules this action is illegal and although a firm could now secure a patent on their newer, cheaper production method, they would still have to pay a licensing fee of the original inventor’s choosing, typically high enough to skim off any profit margin. Leaving aside important ethical issues over patents to focus on economic ones, the 1995 TRIPS agreement clearly favors developed countries over developing ones. Some concessions were made to least-developed countries, but that does not change the fact that most poor countries were convinced to give up something for nothing. They were convinced to do so, in part, because the “nothing” comprised a series of unfulfilled promises to address the grievances of developing countries on issues more important to them, particularly agriculture. Throughout the history of GATT, tariffs in most industries have been cut considerably over time. The big exception is agriculture. In fact US and EC farm subsidies have increased. The US now averages $18 billion a year in farm subsidies. Whether for “strategic” or “cultural” reasons (or for political ones), industrialized countries continue to protect their agriculture from rival producers in developing countries. In the 1930’s “about 25% of Americans lived on about 6 million farms.” Thus one could easily argue that, as an industry, agriculture was vital to the US economy. “By comparison, the USDA estimates that today only about 2% of the population lives on about 2 million farms, and only 8% of those farms account for approximately 72% of the agricultural sales.” In contrast, many developing countries rely heavily on agriculture; for some—especially most of the poorest, least-developed countries—it accounts for a majority of their GDP. Most have wages low enough that
even with lower absolute efficiency than US or EC farmers, they could potentially sell the same commodities at well below the cost of production in the US or EC. To “protect” their domestic agricultural industries from this competition, most developed countries use various combinations of domestic subsidies, export subsidies, quotas and tariffs to ensure not only that foreign goods will be more expensive, but often that domestic producers will be able to export so far below cost that they can undersell farmers from developing countries in their own domestic markets. Thus, many developing countries with arable land still end up importing more agricultural goods than they export. These subsidies have been written in as “special exceptions” to WTO treaties over the years, thereby allowing developed countries to continue this practice despite liberalization of agriculture markets in developing countries. To put the numbers in perspective,

the subsidies given to American cotton producers are 60 percent more than the total GDP of Burkina Faso, where over 2 million people depend on cotton production. One half of cotton subsidies to American producers (around US$1 billion) goes to a few thousand farmers who cultivate around 1,000 acres of cotton... In the WCA [west central African] countries, on the other hand, these subsidies penalize one million farmers who only have five acres of cotton and live on less than US$1 per person per day.15

This protection of developed country agriculture contradicts everything the WTO officially stands for, yet developing countries have had virtually no success influencing the US or EC to change their behavior. Why have developing countries been so ineffective despite the fact that they hold a majority of the votes?

Side-payments feature prominently in voting theory. They are often described as a means to generate more efficient negotiations (when goods are not easily divisible), since agents can reach a Pareto optimal solution. However, in multi-party negotiations side-payments have been shown to facilitate inefficient outcomes when a minimal winning coalition can be formed more easily through bilateral exchanges. This phenomenon can be seen clearly in WTO negotiations, where wealthy developed countries use external channels of power to pressure other member countries into backing proposals that are contrary to their own interest. Throughout the history of GATT and the WTO, developing countries have complained about bullying by larger countries.16 Senator Chuck Grassley (R Iowa), chairman of the Senate Finance Committee provides one example,

Let me be clear. I’ll use my position as chairman of the Senate Finance Committee, which has jurisdiction over international trade policy in the US Senate, to carefully scrutinize the positions taken by many WTO members during this ministerial [conference in Cancun in 2003]. The United States evaluates potential partners for free trade agreements on
an ongoing basis. I’ll take note of those nations that played a constructive role in Cancun, and those nations that didn’t. This statement is a naked threat by a US Senator in possession of substantial power. It should also be noted that he represents one of the most agricultural states in the US.

The use of these side-payments, both positive and negative, has become endemic to the system. In a transparent example of a direct cash payment for support, on October 1, 2003, US Trade Representative Robert Zoellick “announced a $6.75 million grant for CAFTA partners… A week later Costa Rica withdrew from the G-20… Guatemala, too, yielded to the pressure…” The G-20 had been opposing the US/EC agenda in Cancun. Months later “US Senator Norm Coleman [R-Minnesota] warned President Alvaro Uribe that ‘remaining in [the G-20] will not lead to good relations between Colombia and the United States.’” Colombia withdrew from the G-20 within the year, and was duly rewarded in March 2004 with the opening of negotiations for a US-Colombian Free Trade Agreement.

Part of the reason that side-payments are so prominent in WTO negotiations is the magnitude of trade at stake. Because a concession to protect a single domestic industry can be worth billions of dollars to some organized special-interest group back in the US or EC, their trade representatives will lobby with all their might to secure it. In 2004, global export trade was worth US $8.907 trillion, so lobbyists will pay exorbitant sums to keep or expand their slice of the pie. Furthermore it is the nature of competition that even a slight edge can often prove decisive, so in many cases even small concessions become major political battles, both domestically and internationally. Any producer in the global marketplace can appreciate the competitive value of being able to sell goods, agricultural or manufactured, at even a small price advantage over those of competitors in other countries. Examples abound, but a straightforward case is the battle between Boeing and Airbus over the various domestic subsidies they each receive. Each competes against the other to secure more government monies than its rival, in effect subsidizing its sales on the international market. At the same time, they pressure their respective governments to attack the other airplane manufacturer for unfair trade practices. Because the representatives sent to the WTO are trade representatives, they answer to the trade departments of their various states, exacerbating the pressures listed above. This branch of government is usually tied more closely to industry than other branches of government. Thus US, EC, and other trade representatives from developed countries generally come to the table with an agenda dictated by domestic special interests and a mandate to coerce other states into backing them. Rarely do they have permission to offer
any major concessions that might be politically unpopular back home.\textsuperscript{22}

Examples such as TRIPS or WTO agriculture rules are merely illustrations of a larger strategy by which the Quad countries use side-payments to keep developing countries factionalized and divided. By creating regional free trade agreements (NAFTA, CAFTA, ACP) they can play off developing countries against each other in a race to the bottom to win political and economic favors from the world’s wealthiest countries. If developing countries remain divided, the Quad countries can continue to dictate global trade policy. The result: some developing and least-developed countries make short-term concessions at the expense of their economic neighbors and their own long-term trade interests. Ironically, the increased revenue and economic power that accrue to the Quad countries enable them to offer even more appealing side-payments to the developing countries at whose expense they are profiting. The patronage network is thus self-reinforcing as long as developing countries can be kept fragmented during negotiations.

Given that developed countries are prepared to follow through on serious threats towards less powerful countries, what could be done to protect them from such bullying? In other words, how could the WTO in practice return to the WTO in theory, where weaker countries are protected by their majority status as a voting bloc? The answer lies in accountability. Modern society generally describes accountability as highly desirable, whether in business, politics, or day-to-day behavior. Accountability is associated with efficiency and competition; a Google search for “holding government accountable” demonstrates the diversity of groups viewing accountability as highly desirable. From research studies on government tobacco policy (#1 hit) to congressman John L. Mica of Florida and his proposed legislation to help reign in the IRS (#5) to Raymond Karszewski’s letter of protest for his allegedly wrongful arrest and imprisonment (#6), Americans both inside and outside government use the catchword “accountable” to convey justice, even righteousness, as their motivation for fighting “the system.”

In certain contexts however, accountability can be detrimental. In the US we appoint Supreme Court justices to life terms specifically so that politicians in the executive or legislative branch cannot hold them accountable for their decisions, thus increasing the independence of the American judiciary. Likewise in the WTO, the ability of powerful developed countries to hold weaker countries accountable for their voting allows them to better isolate the weaker countries and intimidate them into submission. Because voting is done publicly, the US, EC, and others know which developing countries to reward and which to punish. The logical step, therefore, is to make voting private.
A secret ballot could effectively remedy the side-payment problem by shifting real power away from the wealthiest, most developed countries, towards those with less power under the current system. Whoever has the most resources to bring to the table benefits most from a side-payment regime; conversely, whoever has the least resources will likely benefit from a regime that undermines side-payments. Votes become more valuable when they are more difficult to buy, and removing accountability for voting would seriously undermine the effectiveness of threats from wealthy countries. When a proposal failed, no one would know for certain which countries had ultimately chosen to blacklist it; thus, they would all be protected. This fact would derail the current US/EC side-payment tactic of “securing” the vote of one or a few countries at a time, and punishing those who oppose. If voting were secret, no one would be sure which votes had actually been “secured” and, thus, no one could be sure which countries had earned “punishment.”

One possible response to a secret ballot for the exploiting countries would be to lump whole regions together and punish them as a group if developed country proposals were rejected. However, if the US or EC adopted a strategy of group punishment, it would only solidify regions into stronger communities. The resulting alliances would most likely be more resistant to pressure from developed countries to “sell out” for their own individual benefit. This multinational solidarity occurred to a certain extent at the 2003 Cancun Ministerial Conference, when two groups of developing and least-developed countries banded together under the labels G-20 and G-90 to protect each other from strong US and EC pressure for further liberalization. While a few members were dislodged from this coalition (recall the examples of Columbia, Costa Rica, and Guatemala withdrawing from the G-20 cited above), enough held together that the conference ended without any concessions made or agreements reached. Whether secret balloting would have provided enough security to allow these particular countries to remain in the G-20 is uncertain. However, secret balloting would certainly have dispersed US pressure more broadly amongst various other developing countries whose loyalty the US would be less certain of.

There are two arguments that could arise in opposition to secret balloting as a decision-making method for the WTO. The first is that it will not significantly undermine side-payments. The second is that it will undermine transparency in the WTO. The first concern can only be addressed hypothetically, since no one can be sure how much secret balloting would actually undermine the ability of developed countries to exert pressure. On the one hand, the WTO operates by consensus, and involves lengthy negotiations, so countries often know where others stand. However, member nations could potentially oppose an agreement.
publicly, only to vote for it later under pressure from major powers. However, publicly opposing an agreement does not necessarily mean voting against it, so those seeking to use threats would face difficulty if they relied on public statements to mete out punishment.

Alternately, one might argue that developed countries such as the US have sufficient espionage capabilities to beat the system of secret ballots and discover how trade representatives were ordered to vote by their country’s government. Ignoring the potential fallout of a country’s being caught performing such covert operations during WTO negotiations, it seems implausible that such intelligence would be both complete and reliable. Furthermore, developing countries would have a strong incentive to keep such information secret, and would certainly work to undermine any covert information gathering. Such behavior, however, remains a legitimate concern regarding how “secret” WTO voting could be in actuality.

It is easier to refute the second concern—reduction of transparency. The WTO has always been a secretive organization. All negotiations are secret, no minutes are kept, no speeches are recorded, no video or audio recording of any kind is allowed, and only the voting records are made public. The WTO is arguably the least transparent public international institution on the globe. Given this fact, it becomes difficult to argue that the loss of transparency through voting records is problematic. To counteract this difficulty, making other aspects of the WTO, such as regular meetings, ministerial conferences, and internal reports, more accessible could compensate for the loss.

There are certainly other changes through which the balance of power could be shifted back towards developing and least-developed countries. A switch to secret ballots is only one of many proposals put forth to address this imbalance. Many of these proposals involve major changes to the WTO charter, the judicial process, and the methods of representation. In its support, a switch from public to private voting is a relatively cost-free and simple adjustment. Though certainly not politically feasible at this point in time, neither are any of the more drastic changes that have been proposed. And unlike broader proposals to overhaul the entire decision-making process, secret ballots are a more elegant solution: tipping the scales without recasting them.


http://www.economist.com/research/Backgrounders/displaybackgrounder.cfm?bg=929486


http://www.wto.org/english/res_e/statis_e/its2005_e/its05_overview_e.htm

1 Steinberg: 275
2 Jawara and Kwa: xxxviii, xliii
3 IMF Website. Interestingly, it took a site search to find these data, whereas information on IMF efforts to alleviate poverty was readily accessible.
4 Hoekman, Mattoo, and English: 48
5 Understanding the WTO: 107
6 ibid: 197
7 ibid: 110
8 Katrab and Strange: 146-164
9 t’ Hoen: Introduction and Part I
10 http://www.cid.harvard.edu/cidtrade/issues/ipr.html
For a more recent example see http://www.cptech.org/ip/wto/insidetrade05242002.html.
11 Compare the 1996 US Farm Bill to the 2003 US Farm Bill which increased spending by almost half a billion dollars a month
12 Grynberg and Turner: 21
13 USDA in Grynberg and Turner: 21
14 ibid: 21
16 Jawara and Kwa: introduction, especially xxxiv
17 ibid: lvii
18 ibid: lviii
19 Jawara and Kwa: lix
20 WTO International Trade Statistics: Table 1.3
21 Jawara and Kwa: xxvi, xxxii
22 ibid: liv
23 Jawara and Kwa: introduction
24 Esserman and Howse. For another typical NGO condemnation see: http://www.citizen.org/pressroom/release.cfm?ID=1759