

**Theories of International Cooperation and the  
GATT/WTO Regime:  
Beyond the Dichotomy of  
Rational and Cognitive Approaches**

**Thesis**

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## **Abstract**

This thesis aspires to assess the explanatory value of different theories of international cooperation for the case of the world trade regime of GATT/WTO and subsequently strives to reach a satisfactory interpretation of the instance of cooperation. The world trade regime embarked on a process of transformation with the signing of the Marrakech Agreements of 15th April 1994. The event marked the conclusion of the Uruguay Round and, with the establishment of the WTO, the beginning of a new era for the world trade regime. The thesis endeavours to establish the substance of the regime change from GATT to the WTO. It outlines the most significant provisions of the agreement of the Uruguay Round and, subsequently, analyses the change on the level of regime norms underlying the world trade regime. The analysis of regime norms yields insights about the essence of the regime transformation and as to what factors proved to be conducive to cooperation in the sphere of the world trade. The GATT/WTO regime with its extended scope and more sophisticated institutional structures can be regarded as a prime example of successful cooperation. However, the prospects for cooperation between states in an anarchic environment without central authority for enforcement are the subject of a remarkably intense scholarly debate. Therefore it is worthwhile to examine which theoretical framework proves to be most adept at elucidating the circumstances of this instance of cooperation. This thesis applies different theories of international cooperation to the case of the GATT/WTO regime. While a large array of rational theories attempts to explain cooperation from a perspective which focuses on interests and capabilities, a different strand of theories, that of cognitive approaches, emphasizes the paramountcy of ideas and beliefs as variables which explain cooperation. They endogenize the process of interest formation. This thesis seeks to synthesise the strong points of rational and cognitive approaches and thus to reconcile the divergent schools of thought. Its further purpose is to set out factors which are conducive to cooperation.

## Contents

<b>I</b>	<b><u>Introduction</u></b>	<b>1</b>
<b>II</b>	<b><u>The Theoretical Framework:</u></b>	<b>3</b>
	<b><u>Regime Theory and International Cooperation</u></b>	
1)	Cooperation and International Regimes: Some Definitions	3
2)	Applying the Definition of Regimes: The Issue-Area of Trade	6
3)	Obstacles to Cooperation and Underlying Theories of International Relations	8
4)	Theories of International Cooperation	12
	(i) Rational Theories of International Cooperation	13
	(ii) Cognitive Approaches to International Cooperation	30
<b>III</b>	<b><u>The World Trade Regime: From GATT to the WTO</u></b>	<b>38</b>
1)	The Roots of GATT	38
2)	The GATT Norms: A Tool for Regime Analysis	41
3)	The Context of the Uruguay Round	45
4)	The Agreements of the Uruguay Round and the Establishment of the WTO	48

<b>IV</b>	<b><u>An Interpretation of the Uruguay Round:</u></b>	<b>65</b>
	<b><u>Regime Change and Successful Cooperation</u></b>	
1)	The Uruguay Round and GATT Norms	66
2)	Shared Beliefs, Interdependence, and their Impact on Cooperation: The Irrelevance of Relative Gains	74
3)	Cooperation in the World Trade Regime: Remaining Obstacles	82
<b>V</b>	<b><u>Regime Theories and the World Trade Regime</u></b>	<b>86</b>
1)	Explaining Cooperation in the World Trade Regime	87
	(i) The Contribution of Rational Theories	87
	(ii) The Contribution of Cognitive Approaches	96
	(iii) Making the Link: The Synthesis of Power and Ideas	98
2)	General Lessons for the Study of Cooperation	101
<b>VI</b>	<b><u>Conclusion</u></b>	<b>103</b>
	<b><u>Appendix: Membership of the WTO</u></b>	<b>104</b>
	<b><u>Bibliography</u></b>	<b>105</b>

## List of Abbreviations

AUS	Australia
DSB	Dispute Settlement Body
EFTA	European Free Trade Area
EU	European Union
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
J	Japan
LDP	Liberal Democratic Party
MFA	Multifibre Agreement
MFN	Most-Favoured-Nation
NA	North America
NIC	Newly Industrialised Country
NTB	Non-Tariff Barrier
NTM	Non-Tariff Measure
NZ	New Zealand
PD	Prisoner's Dilemma
R&D	Research and Development
TRIM	Trade Related Investment Measure
TRIP	Trade Related Intellectual Property Right
VER	Voluntary Export Restraint
WTO	World Trade Organisation
ZA	South Africa

## List of Tables

Table 1: Commitments of Service Activities within the GATS	56
Table 2: Leading Exporters of World Trade in Services	58
Table 3: Leading Exporters of World Merchandise Trade	89

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# I

## Introduction

The General Agreement on Tariffs and Trade (GATT), which came into force in January 1948, was established with the intention of creating a more stable environment for international trade. Since then the removal of trade barriers and the maintenance of its multilateral character have turned GATT into a paradigmatic case for successful international cooperation. The conclusion of the Uruguay Round with its 122 participants and the subsequent establishment of the World Trade Organisation (WTO) marked a change for the world trade regime featured by a considerable expansion of cooperation in the sphere of world trade. This poses a challenge for theories of international relations, as an opportunity is provided for the different strands of theories to test the validity of their hypotheses on cooperation against the empirical case of the world trade regime. There has always been profound disagreement pertaining to the prospects of international cooperation.

My objectives are twofold. I want to use the case of cooperation within the framework of GATT and the WTO as gauge to measure the explanatory value of the principal insights of different theories. Secondly, I attempt to examine what factors proved to be decisive for the positive outcome of the Uruguay Round and I attempt to assess if this can be generalised for international cooperation. This thesis commences with an outline of the general problems linked to cooperation and with an overview of different schools of theories dealing with the issue of cooperation and international regimes. It proceeds with a presentation of the agreements of the Uruguay Round. Their provisions are analyzed with regard to possible changes of regime norms underlying GATT. An evaluation if the level of regime norms has undergone changes provides insights into the nature of the transformation of the world trade regime. It shows which norms have gained significance and this, subsequently, allows us to draw conclusions pertaining to factors which were conducive to or inhibiting cooperation.

In the last section of this thesis I endeavour to explain the act of cooperation in the world trade regime. I draw from the available sets of theories and I aim at accomplishing a synthesis of the different approaches which can deliver a sound explanation of cooperation in the framework of the world trade regime.

Finally, I have to account for certain limitations in this work. This thesis seeks to establish what factors were fostering cooperation on a global scale. Owing to this systemic focus, I largely have to neglect the domestic context of individual member states. I do acknowledge the great importance of the domestic setting, as interest formation takes place in that arena. However, the limited scope of this thesis prevents me from scrutinising in detail the specific domestic environment of individual countries. Therefore I will only allude to the domestic sphere when it is constitutive for my study of the global trade regime. Likewise, I have not dealt in detail with the negotiation process leading to the conclusion of the Uruguay Round. I restrict my analysis to the actual outcome, the agreements of the Uruguay Round and use them as a starting point for my examination of the level of regime norms and the interpretation thereof. Inherent to this approach is the neglect of divergent views of smaller states, mainly developing countries, which have either been modified or have not come to any bearing in the negotiations and are, consequently, not manifested in the outcome.

My objective is not to explain the bargaining process and to establish who is gaining, or losing as a result of the agreements, but to find prime factors catalysing successful cooperation. Accordingly, my analysis tends to overlook the complexity of the bargaining process by implying a principle antagonism between developing and industrialised countries. Again, with an emphasis on the systemic issue, the thesis must fall short of doing justice to the multifaceted extent of issue-areas and interactions.

## II

### The Theoretical Framework:

#### Regime Theory and International Cooperation

##### 1) Cooperation and International Regimes:

###### Some Definitions

At the beginning of this thesis it is necessary to give definitions of the basic terms and concepts used. While the term "cooperation" as a description of a specific behaviour is not seriously contested, the picture is different if one wants to define an "international regime". Often the term is conflated with either "international order" or with "international organisation". Clarification is required about the subject-matter of this thesis, before I can turn to the object of analysis.

Cooperation has to be distinguished from both harmony and discord (Keohane, 1988: 380). As cooperation is directed towards the achievement of certain goals, it is important to stress that the goals of the different actors must be compatible to a certain degree. A situation of discord is featured by the existence of policies hindering the realisation of other actors' goals and a lack of adjustment to make these policies more compatible (ibid: 380). Obviously, an environment in which competition is prevalent, implying "goal-seeking behaviour that seeks to reduce the gains available to others" (Milner, 1992: 468), is not conducive to cooperation. On the other hand, in case of harmony, cooperation is not the appropriate term, as "actors' policies automatically facilitate the attainment of others' goals". As Keohane points out in neither situation -discord or harmony - does an incentive exist for actors to adjust their behaviour (Keohane, 1988: 380).

Cooperation "requires that the actions of separate individuals or organisations -which are not in pre-existent harmony- be brought into conformity with one another through a process of policy coordination" (Keohane, 1984: 51). The latter part of this definition emphasises the requirement of a deliberate adjustment of policies which takes other actors' goals into consideration. The concept of cooperation entails an element of dynamic interaction as opposed to unilateral action. However, the temptation should be resisted to regard cooperation as *ex ipso* mutually beneficial, because the process of policy adjustment can also imply the imposition of cooperation on one (or more) parties (Milner, 1992: 469).

In international politics cooperation is often institutionalised in international regimes. However, the two terms are not congruent. Cooperation can be the result of negotiations, it can be imposed by one or more powerful states or it can occur spontaneously (Young, 1989). In the former two cases a regime might be created, whereas in the case of spontaneous cooperation it is clearly misleading to speak of a regime. A distinction must be drawn between regimes, international orders and international organisations. An international order is featured by a certain configuration of constitutive principles in a given domain of international relations (Ruggie, 1992: 3). Multilateralism, bilateralism and unilateralism are all examples of general principles of an order. Those general ordering principles still do not indicate, what the content of an order looks like. This lacuna is filled by the principles and norms constituting a regime.

Regimes are commonly referred to as institutions. Institutions can be defined as "rules, enforcement characteristics of rules, and norms of behaviour that structure repeated human interaction" (North, 1987: 6, as quoted in Keohane, 1988). This definition applies to institutions as a particular constructed arrangement opposed to a general pattern or categorization of activity (Keohane, 1988: 383). Regimes are falling in the latter category of specific institutions; that is, institutions as "related complexes of rules and norms, identifiable in space and time" (*ibid*: 383). Keohane regards international regimes as a subcategory of "specific institutions" with the special hallmark

of "involving states and/or transnational actors, which apply to particular issues in international relations" (Keohane, 1988: 384, footnote 2).

Krasner also emphasises the significance of rules and norms in his standard definition of regimes as "sets of implicit or explicit principles, norms, rules and decision-making procedures around which actors' expectations converge in a given area of international relations. Principles are beliefs of fact, causation, and rectitude. Norms are standards of behaviour defined in terms of rights and obligations. Rules are specific prescriptions or proscriptions for action. Decision-making procedures are prevailing practices for making and implementing collective choice" (Krasner, 1983: 2).

Krasner's definition has been dismissed by Haggard and Simmons for using easily conflatable terms. While the definition puts the emphasis on the normative dimension of politics, the lines between the different terms become blurred, evoking disagreement about the content of the regime-constituting elements of "norms" and "principles" (Haggard and Simmons, 1987: 494). Haggard and Simmons put forward a definition which makes regimes more visible, but ignores the normative layers of a regime. Regimes are defined as "multilateral agreements among states which aim to regulate national actions within an issue-area." According to them, "regimes define the range of permissible state action by outlining explicit injunctions" (ibid: 495).

Although I agree with Haggard and Simmons that we should be urged to use "beliefs", "norms", and "principles" with caution, I will follow Krasner's definition in my thesis as I consider the normative element to be constitutive for regimes and contend that an omission of the normative dimension deprives any definition of regimes of a central pillar.

## 2) Applying the Definition of Regimes:

### The Issue-Area of Trade

While International Regimes are not easily discernible, they often find a more visible expression of their existence through an international organisation. In contrast to the more normative level of "international regimes", the term "international organisation" belongs to a much more palpable sphere. An organisation is a tangible entity with headquarters, etc (Ruggie, 1992).

The agreements concluded under the auspices of GATT constitute an international regime in the issue-area of world trade. In that sphere only the GATT agreements encompass principles and norms which are governing global trade. They are multilateral in their character and they are the only ones with global applicability -in contrast to the more far-reaching but regionally bound agreements like those concerning trade in the framework of the EU-treaties. The quality of being unrivalled in this issue-area as a multilateral agreement with global membership justifies referring to the GATT agreements as being constitutive of an international regime. The recently established WTO is the tangible organisation through which the world trade regime relates to the individual member states and other organisations.

There are other global organisations in the field of trade, namely the UNCTAD and the OECD. However, their functions relate merely to the monitoring and the surveillance of world trade. The UNCTAD does not comprise principles, norms and rules and lacks any regulative element which my definition requires for an agreement to be considered as regime-constituting. Therefore a study of the world trade regime can legitimately focus on the GATT agreements and the recently established WTO.

I have now established what I will refer to as world trade regime. The questions I intend to answer are focusing on the motivations of the main actors for cooperating and transforming GATT into the WTO and thereby inducing a regime change. I am less interested in the question on a purely material

level of who is gaining or losing what, or in which field of trade. My analysis focuses on the normative level. I want to illuminate what the underlying reasons are for international cooperation in the mixed-motive, conflict of interests situation of international trade.

Such mixed-interest situations are referred to as collaboration problems (Ruggie, 1992: 578-83, based on Stein, 1983). This type of problem is less accommodating for cooperative agreements than the category of coordination problems. Faced with a coordination problem, states are in principle indifferent about the outcome provided only that all accept it (Ruggie, 1992; Stein, 1983). In contrast, the mixed-interest situation of collaboration problems poses severe obstacles for cooperation.

International cooperation and thus the creation of international regimes faces several problems. While there is unanimous agreement that cooperation has the potential to provide overall gains and to be mutually beneficial, international relations scholars profoundly disagree about the chances of accomplishing international cooperation. However, I propose here that successful cooperation has occurred in the field of international trade, manifested in the establishment of the World Trade Organisation.

Before this thesis embarks on a discussion as regards the applicability of different theories of international cooperation to the case of the WTO, it is useful to outline the main impediments to international cooperation. This provides the framework in which any theory has to operate if it is aspiring to deliver explanations of cooperative behaviour.

### 3) Obstacles to Cooperation and Underlying Theories of International Relations

The reason why international relations scholars are not in concurrence about the prospects for successful international cooperation is that they are basing their predictions on profoundly different conceptual frameworks of the international system and of the behaviour of states. Theories of international cooperation are not detached from those dealing with international politics in general. Notions about cooperation and its viability are interweaved with general perceptions of the international arena. It is the set of underlying beliefs which determines what issues are perceived as impeding cooperation and the creation of regimes. Therefore it is essential to outline the broader theoretical framework before embarking on an elaborate presentation of theories of international cooperation.

Structuralists base their theories of cooperation on the tenets of neorealism, namely that states are essentially unitary actors in an anarchic system whose principal goal is to survive. This set of beliefs has a very profound influence on the way structuralist theories approach the topic of cooperation.

Prior to a discussion of the explanatory value of different theories for the case of the world trade regime, I want to elaborate on the two principal problems frequently identified in the literature on international cooperation as obstacles to the realisation of cooperation. Then I intend to contextualise them within the fundamental tenets of the strands of theories.

Firstly, all theories, regardless of their adherence to realism or neoliberalism, unanimously acknowledge that the possibility of defection is a problem affecting all projects of international cooperation. Secondly, the respective affiliation with either the concept of absolute-gains seeking or with that of relative-gains seeking has profound implications for the assessment of the likelihood of successful cooperation.

International relations scholars disagree on the content of anarchy in the international system and its implications, whereas neorealists and neoliberals do not have a quarrel about the generally egoistic behaviour of actors. Because of the latter theories of international cooperation must pay attention to the defection problem. States might renege on agreements in order to achieve unilateral gains. A supreme authority for monitoring and with the power to punish defections does not exist in the international system. Neoliberal theories acknowledge the problem of potential defections, but argue that this impediment to successful cooperation can be overcome through the establishment of international institutions, as they "affect the patterns of cooperation that emerge" (Keohane, 1984: 9).

While both neoliberals and realists agree that the problem of cheating has to be addressed if one desires the accomplishment of durable cooperation, adherents to realist theories propose the existence of an even more severe obstacle to cooperation. That is, according to realists, the tendency of states to seek relative gains. This issue proves highly problematic for cooperation, as whether states only aim at achieving absolute gains or whether they are focusing on relative gains changes their calculations considerably.

The issue is closely linked to different definitions of anarchy (Powell, 1994). I will outline in the following why the neoliberal conception of anarchy does not promote relative gains seeking whereas the neorealist conception of anarchy engenders the pursuit of relative gains.

Neoliberal approaches concur with realists that the international arena is in a state of anarchy. However, as anarchy is simply defined as a lack of central authority (Axelrod and Keohane, 1985: 226), the anarchic character of international politics does not imply that cooperation is not feasible. Neoliberals claim that countries are only interested in the pursuit of their own welfare and therefore neoliberal approaches assume that states are solely concerned about absolute gains, that is in maximising their own gains regardless of them being smaller or larger than other states' gains.

In contrast, realists emphasize the importance of relative gains. For them a state's highest priority must be to achieve higher gains than other states. A situation where the gains of a state are negative, but not as negative as the ones of the competing states is still preferable to a situation where it has positive gains, but smaller gains than other states.

This attitude has its rationale in the anarchic character of the international system as assumed by theories in the realist tradition. For Neorealists anarchy is not simply a lack of central authority. If it was, there would be no inherent reason why cooperation is so difficult to achieve. The modern state system has been anarchic since its foundation with the Westphalian peace in 1648. Therefore anarchy defined as lack of common authority cannot explain the different degrees of cooperation observed. The concept of anarchy put forward by the neorealists means that the use of force is feasible and implies an expectation of balance-of-power politics (Waltz, 1979: 121). It is this predicament of the strategic environment of states (Powell, 1994: 333) which renders the existence of an anarchic system precarious for cooperation in the eyes of the realists. The anarchic character is innate to the international system and it cannot possibly be mitigated through international institutions.

The anarchic feature of the international structure forces states to pursue their self-interest in order to secure their latently threatened survival. In such a world the significance of absolute gains is secondary. In an anarchic world a state faces security threats from potentially any other state. Realists, positing defensive state positionalism, stress the element of uncertainty in international relations (Grieco, 1990: 45).

According to the realist position, states cannot be certain how states that are friendly in the present will choose to act in the future (Grieco, Powell and Snidal, 1993: 733). Therefore even current allies have to be regarded as potential future enemies, as "minds can be changed, new leaders can come to power, values can shift, new opportunities and dangers can arise" (Jervis, 1978: 168). Looking at the anarchy and uncertainty of the realists' setting it becomes clear, why relative gains are attributed such an enormous

importance by the adherents of realism. Gaps in mutual gains advantaging other states may be used against oneself in the future. Therefore states have to pay attention to the problem of relative gains. That position is most succinctly summarized by Grieco:

"...states in anarchy are generally defensive positionalists. Defensive positionalism, in turn, generates a relative-gains problem for cooperation: a state will decline to join, will leave, or will sharply limit its commitment to a cooperative arrangement if it believes that gaps in otherwise mutually positive gains favour partners" (Grieco, 1990: 10).

The implications of such behaviour for international cooperation are evidently disastrous. If relative gains are important, it would be considerably more difficult to reach an agreement among states, as it is possible that they refuse agreements only on the grounds that other participants are gaining more than they do.

Undoubtedly, the problem of relative gains is not only relevant, but of pivotal importance if security issues are concerned. Relative gains may be directly translated into military capabilities and thus affect the security and the chances for survival of a state relatively disadvantaged by the outcome of cooperation. The crucial question for this work is whether the realist scenario really applies, particular if one is concentrating on cooperation in the field of international trade.

However, I want to defer a discussion of whether the realist scenario is applicable to the sphere of trade. This discussion will be embedded into the section in which I test the different theories of cooperation against the empirical case of the world trade regime.

The purpose of this section was to highlight what fundamental difficulties are attached to international cooperation. This brief overall view on the basic problems of cooperation was supposed to set the ambit within which any theory has to operate. In the next step, I want to examine what analytical framework

the different strands of theories use in order to explain international cooperation, or the lack thereof.

#### 4) Theories of International Cooperation

This section provides the theoretical framework for the subsequent analysis of cooperation within the world trade regime. I present different approaches to international cooperation which are then to be measured against the reality of the regime. My selection, out of a remarkable array of theories on international cooperation, is guided by two premises: Firstly, a greater spectrum of theories can only enhance the analytic power of this thesis. Secondly, I want my theoretical section to mirror the debate on international cooperation. The strong emphasis on rational, state-centred approaches in my theoretical framework clearly reflects their preponderance in the scholarly discourse. This emphasis is also due to the fact that I only attempt to modify, but not to eradicate the rational, state-centred perspective, as I deem cognitive approaches to be an imperative supplement to state-centred theories, but by no means a full substitute.

My categorization of theories of international cooperation is based on that of Haggard and Simmons in their excellent account of regime theories (Haggard and Simmons, 1987). I start off with an overview of the most prominent structural theories of international cooperation. I proceed then with a presentation of game-theoretic approaches. Under the assumption of rationality they offer some insightful ideas about the basic problems as well as conditions under which cooperation could arise. I conclude the section on state-centred approaches with an outline of Keohane's regime theory and his concept of bounded rationality as displayed in "After Hegemony". His reasoning epitomises a prime example of functional theories. The theoretical framework is completed by a delineation of ideas which can be categorised as reflective (Keohane, 1988) or cognitive approaches

(Haggard and Simmons, 1987). They, however, are too fragmented to form a clearly identifiable strand of theories.

## (i) Rational Theories of International Cooperation

### (i)a) Structural Theories

Among the numerous theories of international cooperation, structural approaches are perhaps the most prevalent. This may reflect the predominance of neorealism, but it also seems to be accounted for by a desire to get beyond a "nonfalsifiable interpretative framework" (Snidal, 1985,1: 581). Furthermore, a focus on structural features seems to be most promising for the development of a parsimonious theory. The various approaches to international cooperation which are basing their hypotheses on structural elements are all to a large extent concerned with the impact of hegemony on cooperation. This array of theories focusing on hegemony can be differentiated according to whether they follow a public goods assumption or not.

Hegemonic stability theory is perhaps the most prominent theory among the manifold rational approaches to international cooperation. The pivotal concept underlying that approach is the definition of international regimes as public goods. Regime creation is linked to the existence of a dominant power (Haggard and Simmons, 1987: 500) and it is suggested that the presence of a single, strongly dominant actor in international politics leads to an outcome which is collectively desirable for all states in the international system (Snidal, 1985,1: 579). Hegemonic stability theory subsumes both interest and capabilities under the notion of size (ibid: 583), although two strands presume different coincidence of interest and capabilities. Although different strands of them exist, the common determinant of theories of hegemonic stability is the assumption that stable

regimes are a public good which will be provided by the hegemon. In this view an open trade regime is regarded as an institutional public good.

As Snidal (ibid: 590-95) points out, public or collective goods are featured by the antecedent conditions of jointness, nonexclusion and, commensurate to its specific use for hegemonic stability theory, the impossibility of collective action. The condition of jointness requires that different states can consume one unit of the good simultaneously without the benefits being impaired by the concurrent consumption by several states (ibid: 590). Another condition pertaining to a public good is nonexclusion. States which are not contributing to the provision of the public good cannot be excluded from the benefits associated with the good. Snidal rightly identifies the impossibility of collective action as a third condition for public goods, deduced from the use of the term in hegemonic stability theory (ibid: 593). Snidal argues coherently that collective action must be deemed to be impossible, otherwise cooperation would be plausible without a hegemon and the theory thus deprived of its principal idea. This is indeed reflected in Kindleberger's pessimistic assessment of the prospects for collective action among states, however closely allied (Kindleberger, 1976: 37).

There are two main strands of hegemonic stability theory, namely a benevolent and a coercive version. In the former the hegemon is viewed as beneficiary and costpayer at the same time. This approach is based on Mancur Olsen's argument that public goods will only be provided if a single state has sufficient interest in the good to be willing to bear the full costs of its provision (Olsen, 1965). This is only likely to happen if the benefits for that state are larger than the costs of provision. However, as smaller states do not have to contribute to the provision of the public good, but nevertheless enjoy its benefits, they gain more than the hegemon. They exercise free-riding.

In contrast to the benevolent version, Gilpin suggests that the hegemonical power is able to extract contributions towards the provision of the good. He therefore bases his theory on the premise that the hegemon pursues its self-interest to a much larger extent (Gilpin, 1981: 144-145). This shift in the

focus of the theory from the ability to provide a public good to the ability to coerce other states implies that the hegemon can change the distribution of costs and benefits, opening the door to the possible exploitation of subordinate states (Snidal, 1985, 1: 588). In both strands of hegemonic stability theory, however, the existence of a hegemon is regarded as both necessary and sufficient for a liberal trading system.

The notion that hegemony is a precondition for an open trading system is partly empirically supported by Stephen Krasner's early work. In his work "State Power And The Structure Of International Trade" (Krasner, 1976) the presence of a hegemon is linked to a more open trading system. He claims that the hegemonic state will have a preference for an open structure because of its positive impact on this state's aggregate national income and political power (ibid: 322). Most importantly, the hegemon's superior resources can help to create an open trade system through the use of positive (access to its large market and relatively cheap exports) and negative incentives (e.g. withholding grants). The application of Krasner's argument confirms the assertion that hegemony leads to a more open trading system only for some periods (1820-1879, 1880-1900 and 1945-1960), but not for others (1900-1913, 1919-1939 and 1960 to the present). Krasner's formerly strongly structural approach is then amended by the assumption that domestic groups are responsible for a lag in adjusting to a changed international environment. Krasner's approach is helpful, however, in providing an empirically verifiable concept of system openness (tariff levels, trade proportions and regional bloc concentration) and economic hegemony (the indicators of per capita income, aggregate size, share of world trade and share of world investment are all brought into relation with the ones of the second largest power).

Like other scholars, Krasner does omit the influence of the strategic environment on the hegemon's preference for an open trading system. The United States' decision in favour of an open economic system among the capitalist countries in the post-war era cannot be separated from the existence of the Soviet Union as an ideological and strategic antagonist. The advantages European and Asian allies could extract from the United States in the framework of open trade seem to support the model of the benevolent strand of

hegemonic stability theory. However, this view ignores that the strategic setting of the end-1940s and 1950s might have made the US inclined to shoulder the burden of providing an open trade system, not because the US had to provide the "public good", but because the strategic setting required the US to provide incentives for potential allies.

Except for the different strands of hegemonic stability theory, there are various theories also focusing on the structural feature of hegemony, but without reliance on the public goods argument.

#### The Theory of Hegemonic Cooperation

One theory, based on the structural feature of hegemony but avoiding the problematic public goods approach is Yarbrough's and Yarbrough's model of hegemonic cooperation (1987). It focuses on the incentive structures of actors and the possibility that a hegemon can shift these incentive structures to a point at which states are more inclined to cooperate. Yarbrough and Yarbrough suggest that the hegemon can facilitate cooperation ex ante and ex post an agreement. Ex ante the hegemon assists in aligning the incentives of the actors and in reaching an acceptable allocation of costs and benefits of liberalisation (Yarbrough and Yarbrough, 1987: 14). Ex post it is the hegemon's responsibility to monitor the agreement and enforce punishment upon opportunistic countries. Yarbrough and Yarbrough refer to the former as the "carrot" aspect of the hegemon's role and to the latter as the "stick" aspect.

In order to make countries comply, the rewards from cooperation must be more valuable than the potential gains from opportunistic protectionism. The rewards in form of side-payments are paid by the hegemon. On the other hand, the residual for the hegemon must be positive, otherwise the hegemon lacks any incentive to induce cooperation (ibid: 15). Cooperation in this model is mutually beneficial, although the distribution of gains might be very uneven.

The viability of the model depends on the hegemon's dominant position in world trade. Without its ability to influence a large share of trade by its own

policies, the hegemon does not have the enforcement power at its disposal which is crucial for the accomplishment of compliance of all participants.

#### Grieco's Theory of Defensive State Positionalism

Grieco's "Cooperation Among Nations" deserves attention because it focuses on the issue of relative-gains seeking. His argument is based on the classic set of realist assumptions. Grieco refers to the state of anarchy in the international system as one with "no overarching authority to prevent others from using violence, or the threat of violence, to dominate or even to destroy them" (Grieco, 1990: 38). As the supreme goal of states is to survive as independent agents, they react to this anarchic environment with relative-gains seeking. Every relationship with other states is assessed according to its effect on the relative power capabilities of the states involved (ibid: 40).

Grieco spells out a basic idea of realist thinking, brought forward by Gilpin: "The essential fact of politics is that power is always relative; one state's gain in power is by necessity another's loss. Thus, even though two states may be gaining absolutely in wealth, in political terms it is the effect of these gains on relative power positions which is of primary importance." (Gilpin, 1975: 34-36).

Grieco terms this kind of state behaviour which revolves around relative-gains seeking defensive state positionalism. It is self-evident that the achievement of cooperation becomes more problematic under the assumption of relative-gains seeking, as an outcome which exactly maintains the existing balance of capabilities is difficult to reach.

Grieco formalises the relative-gains seeking assumption by incorporating it into the utility function of a state. While a state's utility function (U) under neoliberal premises only encompasses a state's absolute gains (V)

$$U = V \text{ (individual payoff)}$$

it has to incorporate two components to indicate defensive positionalism (Grieco, 1990: 41). Grieco constructs this utility function as

$$U = V - k(W - V) \text{ where } k > 0$$

with "k" serving as the state's coefficient of sensitivity to gaps in payoffs either to its favour or disfavour (W describes the other party's payoff) (ibid: 41). The extent to which defensive positionalism hinders cooperation depends on "k". The factor "k" can be very small, making cooperation in that case more feasible.

#### (i)b) Game Theories

Game theories, and predominantly variations of the Prisoner's Dilemma, have been used to simulate the situation actors are facing in an anarchic world without central authority to enforce agreements. They present the defection problem in its sharpest and most distinct form. Strategic game analysis is based on the conception of nation-states "as interdependent, goal-seeking actors" (Snidal, 1985, 2: 25). Thereby different configurations of national interest and strategic environment are examined and their implications for international conflict and cooperation demonstrated (ibid: 36). Game theoretic approaches (and not just them; see Waltz, 1979: 91; Gilpin, 1981: 87-93) construct an analogy between states in the international political system and firms in an oligopolistic market which is, according to Snidal, based on a number of correspondences. They include economic marketplace = international system, firm = nation-state, oligopolists = great powers. Both are self-help systems and both firm and state act strategically (ibid: 32).

The so-called Prisoner's Dilemma presents the most simple illustration of the basic concepts of game theory. In the familiar Prisoner's Dilemma two actors face the choice between two distinct strategies, namely cooperation and defection. They do not know anything about the choice the other party is making. However, it is assumed that their actions are determined by strategic rationality. That is not only to make "logically correct calculations in using available information to pursue well-defined goals" (Snidal, 1985,2: 38), but also to consider the interaction of one state's choice with the other actor's choice (ibid: 39). The payoff-matrix of the paradigmatic Prisoner's Dilemma is shown below. If the actors react to the payoff-matrix of the one-shot PD game in a rational way, their choice will always be defection, as the payoff from defecting is higher than

**Prisoner's Dilemma**

Player 2

		Cooperate		Defect	
		R=3	R=3	S=1	P=4
Player 1	Cooperate	R=3	R=3	S=1	P=4
	Defect	T=4	S=1	P=2	P=2

Note: Payoffs are given as ordinal rankings, with 4 as most preferred; for each player  $T > R > P > S$ , where

T = temptation to defect

R = reward for mutual cooperation

P = punishment for mutual defection

S = sucker's payoff for unreciprocated cooperation

(figure and text from Lipson, 1985: 3)

the payoff from cooperation regardless of what the other player chooses to do (Gowa, 1986: 169). While it is rational for players to defect in order to avoid the "sucker's payoff", they end up with a suboptimal outcome.

The Pareto-optimal outcome (= that with the highest overall gains) is mutual cooperation with overall gains of 6 (3+3). In cases in which at least one player defects the overall gains for both participants are always lower than those of a situation of mutual cooperation (in the figure above either 4, or 5). As Lipson pointed out "the game's equilibrium is stable but not Pareto optimal" (Lipson, 1985: 2).

If the Prisoner's Dilemma is applied to international trade, the payoff structure reflects the vulnerability of one party to the other party's opportunistic protectionism. The extent of this vulnerability is, of course, exogenously given and depends upon the extent of transaction-specific investment in trade (Yarbrough and Yarbrough, 1987: 10). Yarbrough and Yarbrough elaborate that the "hazard of opportunism is not a result of a traditional monopoly nor of a specialised purpose of [the investment], but rather of [its] specificity to one particular transaction" (ibid: 10-11). The value of such assets in alternative uses is low (Williamson, 1985). As they rightly claim, international trade changes the structure of production and investment in the participating countries and therefore elicits transaction-specific investment (ibid: 11). What they call "dedicated assets" exacerbates the Prisoner's Dilemma. While they are attempting to break the PD through hegemonic cooperation, which I dealt with earlier under the rubric of structural theories, other scholars have shown that even the strategic setting of the PD can be transformed into a setting more conducive to cooperation, if the rules of the game are changed.

#### Variance of the Number of Games Played

The idea to change the rules of the games are based on the acknowledgement of most scholars that the one-shot 2 \* 2 game is not representative of real-life interactions. In his "The Evolution of Cooperation" Axelrod develops the argument that cooperation is even possible among egoists in an anarchic setting (Axelrod, 1984). His model uses an iterated PD game. This design helps to promote cooperation, as it incorporates what Keohane calls the "shadow of the future". If states encounter each other more than once, then they will take the future into consideration. The ability to sacrifice short-term

advantages for long-term gains is an essential part of strategic rationality (Snidal, 1985, 2: 39). The more future payoffs are valued relatively to current payoffs, the smaller is the incentive to defect today -since the other side is likely to retaliate tomorrow (Axelrod and Keohane, 1985: 232).

Axelrod's model proves that cooperation is even possible for egoists in an anarchic setting, if they perceive their actions as being contingent upon each other. This is the basis for the so-called Tit-for-Tat strategy. This strategy entails the initial willingness to cooperate followed by consistent reciprocity. The last move of the other actor is always repeated. If your own moves become contingent on those of the other party, Hardin concludes "rationality can become strategic" (Hardin, 1982: 145). The element of strategic interaction as an element of rational behaviour is crucial in this context. Unlike the strategically rational actor, the parametric actor assumes that the actor's environment is a parametric constant rather than the product of strategic interaction (Elster, 1976: 18). Japan's trade policy in the 1970s and 1980s can be seen as an example of parametric rationality. Japan failed to recognise or at least failed to adjust its policy to the more stable security situation which made the United States reverse its policy of overlooking protectionist policies of key allies (Lipson, 1985: 9).

Lipson lists what he considers vital elements for stable cooperation in international affairs: 1) the actors' perceptions that they are interdependent and that their decisions are mutually contingent; 2) a timely capacity to monitor and to react to the decisions of the other party; 3) a strong interest in the long haul; 4) moderate differences between the payoffs for cooperation and defection (ibid: 7).

Axelrod and Keohane also identify factors which make cooperation more likely in iterated PD games. They list long time horizons, regularity of stakes, reliability of information about the other's actions and quick feedback about changes in the other's actions (Axelrod and Keohane, 1985: 232). The factors mentioned make apparent that a distinction between security issues and the economic field is necessary. Only if economic issues are concerned are

repeated PD games more conducive to cooperation, (Axelrod and Keohane, 1985; Lipson, 1985). In economic relationships, actors have to expect that their relationship will continue over an indefinite period of time (long time horizons) and the losses incurred on one side in case of one defection are normally not devastating for the prospects of survival (ibid: 232).

As Lipson writes, cooperation is most likely if 1) the future is not highly discounted, and 2) the penalty for unreciprocated cooperation is not devastating (Lipson, 1985: 14). Several problems arise with the pursuit of a Tit-for-Tat strategy. For instance, the echo-effect comes into play if one player starts defecting and both use a strategy of Tit-for-Tat consequently (Keohane and Axelrod, 1985: 245). They will remain caught in a circle of defections. Secondly, the possibility of hoarding bargaining chips puts successful cooperation into jeopardy. Evans has shown that in tariff negotiations tariffs might be kept in the bargaining process by a country, despite the fact that their maintenance does not have economic value, just because it increases the countries' bargaining power in negotiations based on reciprocity (Evans, 1971: 31-32). Thirdly Axelrod and Keohane mention the problem of issue-interdependence (Ibid: 246).

Although Axelrod's work is compelling in showing that cooperation is even possible among egoistic actors under the condition of anarchy, this has only theoretical value. Repeated games have to assume that key variables are not changing over times and this drastically reduces their predictive capabilities (Cohen, 1990: 276). A second reason why the predictive capabilities of repeated 2\*2 Prisoner's Dilemma games are weak is linked to the Folk Theorem of game theory. According to this theorem, the category of games which includes the repeated 2\*2 PD games produces multiple equilibria (Kreps, 1984: 16).

### Variance of Number of Actors

Another interesting extension of the PD game concerns the number of actors. PD games with more than two actors come closest to the problem of the WTO and the maintenance of cooperation in the field of international trade, although the question remains open, how many actors an analysis of the world trade regime should reasonably encompass.

The "k-group" analysis (Hardin, 1982; Schelling, 1978) understands multilateral relations in terms of strategic relations of any state with all other states (Snidal, 1985,2: 53). This, however, presupposes, at least roughly, symmetry concerning the actors' opportunities, interests and impact on the issue-area which is for real world contexts a highly problematic assumption.

Schelling and Hardin make the crucial point that in an n-person dilemma cooperation can emerge, although each individual state has an incentive not to cooperate. In their revision of Olsen's argument, Schelling and Harding suggest a distinction between the size of the overall group and the minimum-size group that can be effective in collective action as a criteria for the possibility of cooperation. They prove that there is a minimum number of states (k) for which, if they decide to cooperate, cooperation is advantageous regardless of the behaviour of other states. The illustration of the existence of a point "k" where the benefits begin to outweigh the costs of cooperation for the cooperating states is constitutive of a refutation of the claim of hegemonic stability theory that only a hegemon (k=1) will provide the public good of a regime.

Snidal applies Schelling's model to the analysis of k-groups and hegemonic stability theory (Snidal, 1985,1). Strategic interaction is ignored, the behaviour of other states is assumed to be constant. Essentially, Snidal contests that the demise of an economic system follows as a necessary consequence of the decline of the hegemon formerly providing the regime.

"Understanding the impact of hegemonic decline requires information about the size distribution of states that goes beyond the mere preponderance or non-preponderance of the dominant state. The size of the next largest states and of the minimum k-group must also be examined" (ibid: 602-603). Snidal readily supports his hypothesis that the potential of collective action must be taken into consideration by figures on the three largest economies. While the application of his argument to the model of the benevolent hegemon causes problems due to his emphasis on relative size (benevolent hegemonic theory argues in terms of absolute size), its transfer to the coercive version offers the interesting conclusion that a k-group may combine its coercive powers and subsequently uses it to exert influence through the same channels used by the former hegemon.

Through the use of a hypothetical numerical example, very roughly reflecting the economic power configuration between the United States, Japan and Germany, Snidal illustrates the opportunities for cooperation as a result of rational behaviour of the k-group (k=3 in this example). His findings contradict the expectations of hegemonic stability theories which predict a collapse of the regime in the course of a hegemon's decline. Snidal argues that the existence of a hegemon deprives states of their incentives for collective action, because the hegemon has enough power to provide the good itself and subordinate states can calculate with the success of free-riding. Snidal, however, insinuates that a large k-group may impede cooperation.

### (i)c) Functional Theories

Functional theories are based on rational choice theory and they maintain important assumptions of the realist tradition. The assumption of egoism is upheld and so is the idea of an anarchic setting. Functional theories follow a state-centred approach to international politics, although they grant that regimes have an impact on states' behaviour.

Different from realist approaches, however, are the conclusions of functional theories pertaining to the prospects of international cooperation. Scholars in the realist tradition are pointing to a general incompatibility between the actors' egoism and durable cooperation. They assert that international regimes will only emerge and be maintained if this is in the interest of a hegemonic state, whereas in the absence of a hegemon the element of anarchy in the international arena renders any viable cooperation highly unlikely, due to the fact that actors engage in relative-gains seeking, thus necessitating an agreement to maintain the exact distribution of power.

In contrast, functionalists are contending that the self-interest of actors is perfectly compatible with long-term cooperation and the maintenance of international regimes. Although functional theory starts from the same assumptions as realists, that is the pursuit of the self-interest of egoistic actors in an anarchic environment, they come to conclusions deviating from those of the realists. This divergence is explicable through distinct definitions of the actors' self-interest. While realists presuppose that anarchy requires relative-gains seeking from rational actors (turning them into negative altruists), adherents to functional theories restrict their actors to mundane egoism, that is the pursuit of absolute gains.

This is a crucial point. Under the premise of absolute gains-seeking the emergence of regimes may be beneficial to all from a functional point of view, as the regime lowers transaction costs, reduces uncertainty, etc. Under a premise of relative-gains seeking these beneficial functions are clearly subordinate to the question, "how are gains divided?". Therefore functional theories would not be sufficient to explain regime creation under an assumption of relative-gains seeking.

Divergent views on the relevance of relative-gains result in different conclusions from the use of rational-choice theory. The assumption of absolute-gains seeking enables functional theories to concentrate on the plain functions of a regime.

I summarize Keohane's functional approach as put forth in "After Hegemony".

"Functional theory explains for behaviours or institutions in terms of their effects" (Haggard and Simmons, 1987: 506). That is, "the character of what is explained is determined by its effect on what explains it" (Cohen, 1978: 278, as quoted in Keohane, 1984: 80). In general, functional theories perceive regime creation as the attempt to overcome "political market failures". They argue from a perspective which is focusing on problems of transaction costs, uncertainty and asymmetric information (Keohane, 1984: ch. 6).

Keohane draws an analogy between market failure in economics and political market failure, epitomised by inhibitions on mutually beneficial cooperation (ibid: 85). In both spheres market failures result in suboptimal outcomes from a perspective of general welfare gains. Actors fail to reach a pareto-optimal outcome, that is one which yields the highest overall gains.

The need for international regimes is derived "from the deficiencies of the self-help system" (ibid: 88). Regimes can help to overcome political market failure. Therefore the creation of regimes is explicable in the context of governments' anticipations that regimes will lower transaction costs, provide more symmetrical information and establish patterns of legal liability (ibid: 88).

Keohane suggests that conflicts in the international economic arena are partly emerging because of externalities in the global economy. This follows Davies' and North's line of argument that "actors do not bear the full costs, or receive the full benefits, of their own actions" (Davies and North, 1971, 16). This argument is in essence concurrent with the problem of the provision of public goods on which hegemonic stability theory bases its argument. The existence of externalities is regarded as a potential obstacle to international cooperation.

In "After Hegemony", Keohane's starting point for the solution of the problem of political market failure is the Coase Theorem. Ronald Coase has shown that

under certain conditions bargaining without central authority can lead to solutions which are pareto-optimal, although not necessarily fair.

Based on Coase's assumption that a legal framework establishing liability for actions, perfect information and zero transaction costs are conditions for pareto-optimal outcomes in such a framework, Keohane largely reduces the problem of international cooperation to one of property rights, uncertainty and transaction costs (Keohane, 1984: 87-88).

It is here where the comparison of international politics with an oligopolistic structure in economics becomes most succinct. Concerning legal liability, international regimes are like a mixture of quasi-agreements (see William Fellner's analysis of the behaviour of oligopolistic firms; Fellner, 1949) and conventions. Both are legally unenforceable. However, actors conform to conventions as they are considered as common knowledge in a community and others conform to them (Hardin, 1982; Lewis, 1969; Young, 1983). For Keohane, the quality of conventions and quasi-agreements which is significant for regime analysis, is the potential for the establishment of "stable mutual expectations about others' pattern of behaviour" and the development of "working relationships that will allow the parties to adapt their practices to new situations" (Keohane, 1984: 89). Decisive is the impact on transaction costs for alternative actions: the costs for cooperation within the framework provided are reduced, in contrast the costs for violations are raised (ibid: 89). The structure of transaction costs are further altered through issue-linkages within a regime. The fact that a specific violation does have general implications, namely constituting a violation of the whole regime, increases considerably the costs for illegitimate actions.

Keohane also transfers the idea of "increasing returns of scale" from economics to the field of regime analysis. He claims that economics of scale can occur within international regimes. It seems to be plausible that each additional issue will cause lower marginal costs than it would cause if no regime existed in the issue-area (ibid: 90). Keohane refers to these lower

marginal costs as a strong reason why regimes are not only maintained but even expand their coverage to more issue-areas.

A necessary condition for the creation of a regime is a policy area sufficiently dense to justify its establishment in the first place. Additionally, Keohane addresses the issue of nesting. Without specifying the relationship between regimes in different or overlapping (e.g. monetary and trade) issue-areas, he asserts that the way regimes cluster issues affects issue-linkages and the possibility of side-payments. Again the result is a different pattern of transaction costs (ibid: 90-91). Another serious impediment to cooperation is uncertainty.

Three aspects of the problem of uncertainty deserve attention: asymmetrical information, moral hazard and irresponsibility (Keohane, 1984: 93). Regimes can mitigate the problem of asymmetrical information, which otherwise may cause the less-informed party to withhold its consent to cooperation. Regimes may provide unbiased information and in general "upgrade the level of available information" (ibid: 94). Perhaps even more important is the assistance regimes and their rules and principles provide for governments for an easier evaluation of each other's behaviour against the standards of behaviour entrenched in the regime (ibid: 94). Keohane does not give applications of the two other aspects of uncertainty to international politics. However, for him international regimes offer remedies for the problems associated with political market failure.

Keohane refers to the reduction of uncertainty and the effect of regimes on the structure of transaction costs. As said before, cooperative actions become "cheaper". Thus the price for defection is raised. Besides, issue-linkages within regimes make a regime much more efficient than the alternative of unrelated bilateral agreements which may require anew establishment of rules and principles for each individual agreement (ibid: 97).

The solution to the problems of "political market failure" presents simultaneously the actor's release from the Prisoner's Dilemma, and the end

of the collective action problem. The release from the Prisoner's Dilemma can be derived from the effect of the regime on the anticipated costs of defection. Linkages between diverse issues within a regime transform the interactions into a multiple-play situation. The costs of defection are raised, uncertainty is reduced through the establishment of predictable patterns of behaviour and the provision of more symmetrical information (ibid: 97).

According to Keohane, compliance to regimes cannot only be explained through countries' fears of retaliation. A country's decision not to renege on an agreement can be based on the desire to keep a reputation of being a reliable partner (ibid: 106). If a country is ever again to enter into negotiations - and no country will be able to avoid this - then its reputation can be a very valuable asset in the bargaining process. This logic applies to any egoistic actor who takes its long-term interests into consideration. If the future is deemed important, a country may well forfeit its myopic interests.

A regime might even be maintained if it is regarded as suboptimal. This is due to the difficulties involved with the creation of new regimes. If the outcomes generated by an existing regime are considered to be superior to a situation where no regime at all exists in an issue-area, then countries will continue their support for the regime, that is compliance with its rules.

After Keohane has developed a functional theory, based on the realist's assumptions of "classical rationality" and egoism, he relaxes these stringent assumptions as follows. He denies decision-makers the capacity for rational decision-making and claims that because of the limitations on actors' cognitive abilities, actors' decisions are a result of bounded rationality (Keohane, 1984: ch.7). This notion is based on approaches which Simon has labelled "theories of bounded rationality" (Simon, 1982: 162).

Simon contends that actors in their decision-making satisfice towards an adjustable aspiration level instead of maximizing on the available information as claimed by the classical theory of rationality (Simon, 1982: 408-423). This

does not only apply to individuals, but even more to large institutions like governments. Keohane asserts that under the assumption of bounded rationality, regimes are even more useful, as they provide rules of thumb (Keohane, 1984: 112-115). Although the multilateral rules in all likelihood do not present the optimal solution for a country, they have an invaluable advantage over the device of unilateral rules: others are also bound by them thus considerably increasing the certainty about other's behaviour. Keohane argues that regimes are more advantageous under the conditions of bounded rationality, as governments are not able to work out the optimal path of action anyway.

Essentially, Keohane's functional theory claims that regimes are created and maintained because they lower transaction costs and reduce uncertainty, the latter even more under the assumption of bounded rationality. Therefore regimes are an efficient means to help states to achieve their highest possible gains.

### (ii) Cognitive Approaches to International Cooperation

One set of theories which emphasise the pivotal character of norms, ideas, and identities for international cooperation has been labelled reflective or cognitive theories. The principal idea of cognitive approaches to international cooperation has been described by Haggard and Simmons in their valuable categorization of regime theories:

"...cooperation cannot be completely explained without reference to ideology, the values of actors, the beliefs they hold about the interdependence of issues, and the knowledge available to them about how they can realise specific goals" (Haggard and Simmons, 1987: 510.)

Cognitive theories do not agree with the assumption that interest and capabilities are the only determinants for behaviour in the international

arena. They criticise realist approaches in particular because they conceptualise interests as exogenous variables. Their common objective is to illuminate the formation of interests, as interstate relations cannot simply be subsumed to an analysis of power and capabilities. Instead they stress the subjective, cognitive dimension of regimes and of international politics in general. As Peter Haas elaborates, "the combination of prior belief systems, operational codes, and cognitive maps shapes decision makers' responses not only by influencing the ways in which they interpret the world-but also by erecting barriers to the types of information that they consider valuable" (Haas, 1992: 29).

Beliefs, perceptions and motives are also regarded as integral determinants of any bargaining process thus rendering bargaining a necessarily cognitive process (Adler, 1986: 674). However, while they concord in their rejection of the notion that interest and capabilities are sufficient to explain cooperation, cognitive theories differ pertaining to the independent variables they focus on. I will outline some prime examples of cognitive theories, among them Wendt's constructivist approach to cooperation and the line of thought advocated by the international society school. Finally, I will delineate the ideas of theorists which emphasise the power of consensual knowledge and ideological factors.

#### (ii)a) Constructivism

Wendt's constructivist theory focuses on the way in which intersubjective knowledge defines identities and interests (ibid: 417). Wendt postulates that "identities and interests are relationship-specific" (ibid: 408). As interests are not independent of the social context, the roles actors assume towards one another in their relations become the crucial determinant for the process of interest formation. The significance of institutions is based on their provision of a relatively stable structure of identities and interests (ibid: 399). Institutions are regarded by Wendt as "collective knowledge". With identities and collective knowledge being "mutually constitutive", institutionalization induces a process of interest-reconstitution. In the

course of this process, actors acquire new identities which reflect the social norms constitutive of the institution concerned. In this model cooperation will progress from "a positive interdependence of outcomes into a positive interdependence of utilities or collective interest organised around the norms in question" (Wendt, 1992: 417).

Cooperation is looked at from a cognitive angle. Instead of focusing on the aspects of power or lower transaction costs, as rational approaches do, institutionalised cooperation is explained through the set of intersubjectively defined identities of states and the mutually reinforcing interaction of institutionalised norms and identity-transformation. Identification with the community and its collectively shared norms is regarded as the main motivating force for cooperation.

#### (ii)b) International Society and Regimes

The theme of identification with the state community is the tangent point shared by Wendt's constructivist approach and the proponents of the international society school. The latter do not deliver an equally profound analysis of the relationship between the identification with an international society and the transformation of actors' identities. However, adherents to the tradition of international society generally highlight the importance of culture, common values and shared interests as constituting elements for international society (Bull, 1977; Wight, 1966; Bull and Watson, 1984).

International society can be defined as "a group of states (or, more generally, a group of independent political communities) which not merely form a system, in the sense that the behaviour of each is a necessary factor in the calculations of the others, but also have established by dialogue and consent common rules and institutions for the conduct of their relations, and recognise their common interest in maintaining these arrangements" (Bull and Watson, 1984: 1).

Bull's approach is close to a functional line of argument, as he emphasises the need for states to construct an international order. This is indispensable

as the conduct of relations with other states within the system has become inevitable. The principal point is, as Buzan has pointed out, that "whether or not units share a common culture, at some point the regularity and intensity of their interactions will virtually force the development of a degree of recognition and accommodation among them" (Buzan, 1993: 334).

This functional line within the cognitive framework looks at the development of international society "as a rational long-term response to the existence of an increasingly dense and interactive state system (Buzan, 1993: 334). However, beyond the functionality of society, Bull also stresses the intersubjective dimension of international society. The crucial point is that states within a society of states "conceive themselves to be bound by a common set of rules in their relations with one another" (Bull, 1977: 13).

In contrast to Bull, Wight stresses the predominance of the cultural element. He claims that international society can only be explained in terms of a sense of shared culture. "We must assume that a states-system [i.e., an international society] will not come into being without a degree of cultural unity among its members" (Wight, 1977: 33, as quoted in Buzan, 1993: 333).

Buzan attempts to balance the cultural and the functional line of thinking within the international society school. For the case of highly sophisticated societies, Buzan considers the emergence of international society among unlike units in anarchy. In what has been labelled "neomedieval systems", according to Buzan, "the only possibility for shared identity is not in acceptance of likeness as units but in acceptance of a set of rules that legitimize the differentiation of units and establish the distribution of rights and responsibilities among functionally differentiated actors" (Buzan, 1993: 336).

Like Buzan's, Hurrell's work mirrors the tradition of both the functional and the cultural lines of thinking of the international society school. However, he uses different labels by referring to the significance of the legal dimension of the rules and norms of a community on the one hand and the moral dimension on the other hand. The elaboration on how legal rules exert a

compliance pull of their own (Hurrell, 1993: 58-61) has a substantial overlap with functional lines of thought. Hurrell argues that states comply with specific rules, even if they are in contradiction with their immediate self-interest, because "they have a longer-term interest in the maintenance of law-impregnated international community" (Hurrell, 1993: 59). He and Franck (Franck, 1990) contend that states ascribe legitimacy to rules which originates from "the common sense of being part of a legal community" (Hurrell, 1993: 59). It is suggested that the long-term benefits weak and powerful states secure by participating in an international legal system elicits an idea of obligation which becomes delinked from the short-term interests of states (ibid: 60).

While this line of argument bears a lot of resemblance with functionalist reasoning, Hurrell adds another dimension to his reflective approach. Here he deals with the moral dimension of being part of international society and its effect on cooperation. Hurrell claims that cooperation presupposes a sense of moral community. Unless actors concede each other moral status, cooperation is unlikely to materialise (Hurrell, 1993: 61-62). The perception of the other becomes a determinating factor for a state's behaviour. Linked to that, Hurrell points out that notions of equity and fairness are generally culturally-specific (ibid: 70).

#### (ii)c) Knowledge and Regimes

One strand of theories revolves around the impact of epistemic communities and consensual knowledge on the emergence and maintenance of regimes. Adherents to such approaches which emphasise the significance of consensual knowledge claim that institutions influence perceptions and thought patterns of actors to such an extent that they induce the emergence of "thought collectives" (Fleck, 1979; Joensson, 1993) or epistemic communities (Haas, 1992; Joensson, 1993: 215). The result is a propensity of institutions to become self-perpetuating (ibid). The significance of epistemic communities for regime creation is highlighted by Haas. He defines an epistemic community as a professional group that "have (1) a shared set of normative and principled

beliefs; (2) shared causal beliefs; (3) shared notions of validity -that is, intersubjective, internally defined criteria for validating and weighing knowledge in the domain of their expertise; and (4) a common policy enterprise" (Haas, 1992: 3). The main line of argument is that consensual knowledge shared by the epistemic community determines the process of interest formation of states, and, subsequently, their policies (Haas, 1989), provided that members of the epistemic community gain access to policy-making bodies. However, if a group with concordant ideas attains and sustains control over a policy domain the regime in that issue-area will become stronger and compliance will increase (Haas, 1989: 380). If the epistemic community holds convergent views on one issue-area, it is very likely that the emerging "national" interests are commensurately convergent.

While the influence of epistemic communities is considered to be largely limited to the process of interest definition, the idea of "thought collectives" extends much further. Joensson submits a very valuable and insightful account of this line of thought in his article "Cognitive Factors in Explaining Regime Dynamics" (Joensson, 1993).

It is closely linked to Douglas' proposition that institutions guide and control cognitive processes (Douglas, 1986). Institutions engender the emergence of "thought collectives".

The dominant thought style within a "thought collective" exerts such clout on an actor's thinking that deviance is not a possibility (Douglas, as quoted in Joensson, 1993). It can be imagined as a "thought world...penetrating the minds of its members, defining their experience, and setting the poles of moral understanding" (Douglas, 1986: 128).

Referring to the Foucauldian theme of the relationship between knowledge and power, Joensson sums up the essence of this approach. He states that "in Foucauldian terms, a regime establishes a dominating or hegemonic discourse...It specifies relevant phenomena and issue areas and endorses certain language, symbols, modes of reasoning, and criteria of truth and

meaning" (Joensson, 1993: 213-214). An established discourse with its set of expectations and beliefs can prove obstructive to change.

Bearing in mind the paramountcy which a dominant belief system can have for the initiation of cooperation, it becomes comprehensible why, as Joensson has pointed out, so much importance is attached to the development of common perceptions. Only if actors share certain perceptions and beliefs, they are able to establish what the problems are in a given issue-area in the first place. For most cognitivists, it seems, defining an issue is the more intricate task than actually solving the problems associated with it. The paramount question is to what extent knowledge can be translated into political clout. How much leverage can the epistemic community exert in the light of arising interests around a new issue-area? And, to what extent can the epistemic community maintain influence once the national interests in an issue-area have become solidified and the sovereign states conduct the bargaining process.

#### (ii)d) Ideology and Regimes

The importance of ideology is highlighted by several scholars who claim that a particular policy is only explicable if paramountcy is attached to the variable of ideology. When an ideology, as a set of political doctrines, assumes a critical position in a group's belief system and subsequently exerts influence on its actions, that ideology can have far-reaching and independent effects on politico-economic behaviour (Odell, 1982: 362-63).

Ideologies provide actors with a framework which encompasses a consensus on causes and effects, the setting of goals, the structuring of preferences and strategies of goal attainment (Adler, 1986: 675-76). A prime example for the application of an ideological approach to international relations is Goldstein's analysis of U.S. trade policy. She suggests that the adoption of liberal principles has had a profound impact on the choice of trade policy instruments and that the liberal bias has resulted in less protectionism (Goldstein, 1986).

I have delineated the major sets of theories of international cooperation. I, however, contend that none of the approaches outlined above can be considered to be sufficient by itself for explaining cooperation in the world trade regime. In this thesis I suggest that only theories which can explain both the formation of interests and the impact of the existing power configuration can successfully account for cooperation within the GATT/WTO framework. I will demonstrate what contributions each theory can make to an interpretation of the GATT/WTO case and then I will proceed with a synthesis of rational and cognitive insights. However, first I turn to the object of my analysis that is the GATT/WTO regime. I want to establish what kind of a regime change has become manifested in the Uruguay Round agreements.

### III

## The World Trade Regime:

### From GATT to the WTO

#### 1) The Roots of GATT

GATT was established on a provisional basis after the Second World War in the wake of the Bretton-Woods institutions now known as the World Bank and the International Monetary Fund. Due to its dominance, the United States had a preponderant influence on all institutional arrangements for economic cooperation at that time (Ikenberry, 1992: 295). Not surprisingly, these arrangements reflected what the Americans desired to be the underlying ordering principle for the global economy, the principle of multilateralism. However, while the general ordering principle mirrored in the institutions were decisively influenced by American ideas, the actual economic relations within this framework became dominated by American strategic-political calculations. The non-accession of the socialist states to the Bretton-Woods institutions and the GATT was a prime example for the supremacy of geostrategic considerations. The antagonism of the superpowers proved to be more weighty than the general principle of multilateralism in determining the non-accession of the socialist states. An important component of that antagonism, however, was the dichotomy of free-market principles and state-planned economies.

Obviously, the foundation of GATT and the conduct of relations under its umbrella in the post-war years cannot be delinked from the framework of politically motivated arrangements for the world's monetary system. GATT complemented the monetary agreements. Unfortunately, this paper cannot do justice to the highly intriguing but complicated linkages between high politics and economic relations in the post-war period.

The birth of GATT and the Bretton-Woods-system in the aftermath of the Second World War can only be explained in the context of the lessons which had been drawn from the consequences of the anarchical system of the interwar years. Those years were featured by a lack of international arrangements in the field of international trade as well as in the field of the world's monetary system (see, among others, Eichengreen, 1992). As a result, the underlying ordering principle for interstate relations was either bilateralism or unilateralism. The Great Depression accelerated the trend to protectionism and currency devaluations as a means of gaining competitive advantages. International trade, while potentially mutually beneficial and offering chances for higher overall welfare, deteriorated into a zero-sum-game due to the beggar-my-neighbour policies of the main actors. Furthermore, schemes like the Schachtian trade agreements between Germany and many smaller countries in Eastern Europe and Latin America perverted the notion of mutually beneficial trade relations by translating the power asymmetry into patterns of dependence which bordered on imperialism (see Ruggie, 1992: 568-73). As every book on trade theory can tell, if all sides are resorting to protectionism and beggar-my-neighbour-policies, in the end all are losing out. The world-wide economic crisis had its share among the root causes of the disastrous Second World War. Consequently, the planners of a post-war order on the American and British side agreed that the world economy must be organised differently in order to avoid a repetition of such a destructive outcome. The establishment of the Bretton-Woods institutions and GATT must be seen in this context. The overarching aim was the creation of order:

"The Bretton-Woods system sought to create order by co-ordinating economic policy internationally through adherence to a set of agreed exchange rates, by liberalising trade flows, and by providing external finance to cushion balance of payments<sup>a</sup> adjustments" (Bird, 1996: 149).

In order to prevent countries from relying on bilateral agreements for the conduct of their economic relations -a pattern of behaviour inherently tending to reduce overall welfare, as it is excluding others- global economic relations had to be based on a new ordering principle. This was

multilateralism as an expression of a principle of universality.

The United States, which could win the most from free trade and an open global economy due to its overall supremacy in economic and military matters, espoused the principle of multilateralism. This ordering principle found its expression in the non-discrimination norm as one of the most essential norms of the framework devised for the conduct of world trade. Over 50 countries agreed on a draft charter for an International Trade Organisation. Besides world trade disciplines, the Charter was intended to encompass, among other things, rules concerning employment and commodity agreements.

These were issues the United States did not wish to be incorporated. Although espousing the principle of multilateralism, the Americans were not willing to give up their sovereignty to a multilateral organisation (Hirsch, 1995: 42). This is the principal reason why the International Trade Organisation did not come into being in 1947. Instead the tariff concessions and rules, on which 23 countries agreed after tariff negotiations had started in 1946, became known as the General Agreement on Tariffs and Trade (GATT) and entered into force in January 1948. As the final ITO Charter has never been ratified by the required number of countries, the GATT has been the only multilateral instrument governing international trade since 1948.

With the intention of establishing a stable framework for the conduct of international trade, GATT aimed at the progressive removal of trade barriers, notably tariffs which were at that time seen as the most serious impediment to free trade.

## 2) The GATT Norms: A Tool for Regime Analysis

I want to examine to what extent the world trade regime has been changed as a consequence of the agreements of the Uruguay Round. The body of rules exhibits if the scope of the regime or its legal and organisational structure have been modified. However, an analysis of the body of substantial and procedural rules is only of descriptive nature. It can indicate if a regime change has occurred, but a descriptive analysis cannot provide information about the nature of the regime change. In order to gain insights into that nature, I have to turn to the level of norms underlying the regime. In this context, I understand norms as "standards of behaviour defined in terms of general rights and obligations" (Krasner, 1983: 2). They form the foundation for states' behaviour in drawing up the rules and decision-making procedures for a regime.

GATT has been based on several norms. Although their significance for the guidance of behaviour within the regime may have changed over the past 48 years, they have maintained their character as substantial norms.

### 1) The Non-Discrimination Norm

This norm, commonly known as the Most-Favoured-Nation principle, means that concessions made to one party automatically have to be extended to all other parties of GATT. "Any advantage, favour, privilege, or immunity granted by any contracting party to any product originating or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties" (Article 1:1 of the General Agreement).

The objective of the Most Favoured Nation Principle (MFN) is the non-discriminatory application of agreements within the framework of GATT. As one pillar of GATT the non-discrimination norm is the clearest expression of the ordering principle underlying the world trade regime; that is the principle of multilateralism.

## 2) The Liberalisation Norm

Essentially, the norm requires the removal of all barriers to international trade. The norm of liberalisation is generally seen as being at the core of the GATT regime, because inherent to the norm is the belief that trade liberalisation and the ensuing expansion of trade flows increases the wealth of, and therefore is to the benefit of, all states. This tenet forms the basic *raison d'être* for the GATT regime (Finlayson and Zacher, 1981: 601).

## 3) The Reciprocity Norm

The concept of reciprocity embraces the dimensions of contingency and equivalence (Keohane, 1986: 5-8). The former refers to actions "that are contingent on rewarding reactions from others and that cease when these expected reactions are not forthcoming" (Blau, 1964: 6). The latter, however, the requirement of equivalence, is not to be understood in the strict sense of being equal in measurable market prices (Keohane, 1986: 7).

While the objective of the non-discrimination norm is the universal application of GATT rules, the reciprocity norm aims at securing that roughly equivalent concessions are made by all members. Under GATT, a state which is the beneficiary of concessions is obliged to offer concessions of at least comparable value to the other signatories. This principle aims at the prevention of free-riding. A state's behaviour is referred to as free-riding if this state becomes a beneficiary of the concessions made by others in the framework of an multilateral agreement while refusing to offer anything commensurate on its own behalf.

## 4) The Safeguard Norm

The safeguard norm manifests the recognition that trade agreements can only be maintained in a stable domestic environment (Lipson, 1982: 426/27). States are exempted from compliance with GATT provisions in cases in which domestic sectors are in exceptional economic difficulties. They can either safeguard their domestic industry from material injury or ask for waivers from specific

GATT obligations. Without this general waiver rule it would have been unlikely that any state had signed the GATT agreements.

#### 5) The Transparency Norm

The principle of transparency aims at the creation of a stable and predictable environment for trade and requires states to provide a rule-based framework for the conduct of trade relations. The use of direct controls on trade flows, particularly such as quotas and similar quantitative restrictions whose economic impact is difficult to measure has to be minimised. Consequently, whenever a country has wanted to build up barriers, tariff barriers have been preferred by GATT due to their greater transparency.

I categorise the norms of the world trade regime constituted by GATT as either interdependence norms or as sovereignty norms. This categorization distinguishes norms according to whether they allocate power to the sovereign states (sovereignty norms) or whether they enhance the discretion of the regime (interdependence norms). This categorization stems from Finlayson's and Zacher's study of GATT from the 1950s to the 1970s (Finlayson and Zacher, "The GATT and the regulation of trade barriers", 1981). I, however, slightly differ in my categorization<sup>1</sup>.

I classify non-discrimination, liberalisation and transparency as interdependence norms, whereas reciprocity and safeguards are considered to be enhancing the leverage of the state, and thus ascribed to sovereignty norms. This categorization can be used as a tool for the analysis of regimes.

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<sup>1</sup> Finlayson's and Zacher's list of interdependence norms includes what they call the development norm. I, however, contend that the existence of provisions dealing with exceptions for developing countries do not suffice to classify the pursuit of development as a norm of the GATT/WTO regime. Although many obligations under the agreements are mitigated for developing countries, the provisions do not contain clauses urging the developed countries to engage in the active pursuit of development. Therefore I assert that the pursuit of development does not have the character of a norm as "a standard of behaviour defined in terms of rights and obligations."

The preeminence of interdependence norms and the relative subordination of sovereignty norms will be equated with a strong regime, because a regime can be considered strong if it "it restrains self-seeking states in a competitive international political system from meddling directly in domestic and international economic affairs in the name of their national interests" (Ruggie, 1982: 379).

If a shift is detectable in the balance between interdependence norms and sovereignty norms, this would provide strong evidence that a regime transformation has occurred. Even more insightful, the observation of a stronger emphasis on interdependence norms is interpretable as strengthening of a regime and, consequently as an intensification of institutionalised cooperation. In contrast, the preponderance of sovereignty norms would indicate a weak regime and tighter limits on cooperation.

However, while the shifting emphasis on different GATT norms can be seen throughout GATT's history, not any alteration in emphasis indicates a regime transformation. Often the changes have been of incremental nature, with very few junctures of fundamental change. I assert that the Marrakech Agreements are a manifestation of a more fundamental regime change.

In the following I attempt to scrutinize the agreements of the Uruguay Round with regard to a shift between sovereignty and interdependence norms. If this analysis proves that the outcome of the Uruguay Round has emphasised interdependence norms thus displaying the intensification of cooperation, the foremost objective must be to find an adequate explanation for that behaviour.

The analysis of norms can only be conducted from the tangible agreements of the Uruguay Round as a starting point. Therefore I will commence with an overview of the Uruguay Round, the way it came about and the actual agreements. For an excellent analysis of the development of GATT's norms from the 1950s to the 1970s see Finlayson's and Zacher's work (ibid).

### 3) The Context of the Uruguay Round

GATT started off as a forum and not a full-fledged organisation. Considering that, its success over the past decades is remarkable. Since its modest start with 23 countries in 1947, eight rounds of trade liberalisations have taken place under the auspices of GATT. The last one, the Uruguay Round, has involved not less than 122 countries. These eight rounds of trade liberalisations have brought down tariffs in developed countries from about 40% in 1947 to about 4% when the Marrakech Agreement is fully implemented (Hirsch, 1995: 42). World trade has steadily outgrown world output. This has to be attributed to the stable environment GATT has created.

Despite its success in the 1950s and 1960s, GATT started to encounter severe problems in the 1970s. Firstly, the expansion of the European Community and the conclusion of preferential agreements (Lome) began to undermine GATT's multilateral approach to world trade. Secondly, the proliferation of non-tariff barriers threatened to reverse the success of liberalisation, as it made the success of GATT in the field of tariff barriers appear more ambiguous. The world-wide economic situation in the 1970s did by far not look as favourable as it had looked in the 1960s. As a response, protectionist measures regained popularity in many countries.

GATT's complementary system in the monetary sphere, the Bretton-Woods system essentially collapsed in 1971. Although GATT did not share its fate of breakdown and subsequent abandonment, GATT's future seemed to be uncertain in the 1970s. The Tokyo Round (1973-79) with 102 participants partly succeeded in confronting the issue of non-tariff barriers. A series of agreements were negotiated but only endorsed by a minority of the participants, mostly industrialised countries. The agreements included codes on subsidies and countervailing measures, technical barriers to trade, government procurement and anti-dumping. Although the Tokyo Round did not come to grips with the problems of agriculture, textiles and safeguards, the round at least broke new ground by introducing non-tariff barriers to the negotiations.

However, the Tokyo Round did not bring peace to the organisation. The proliferation of regional agreements and the ever more copious use of non-tariff barriers consistently undermined the spirit of GATT. It became evident that the Tokyo agreements had fallen short of adjusting GATT to the demands of a changed global economy. GATT had traditionally only dealt with trade in goods. The regulation of investments and trade in services had not been on its agenda. However, in the course of the globalization of the world economy, mercantile trade has become closely interlinked with trade in services and investment. The proliferation of regional deals can be interpreted as dissatisfaction of main actors with the insufficient coverage of GATT. Even worse, the character of some agreements like the "voluntary" export quota for Japanese cars and steel elicited the question whether GATT's approach to trade problems with its emphasis on tariff barriers was still congruous as regards the features of a restructured global economy.

The inefficiencies and inappropriateness of this approach for world trade in the 1990s were highlighted by the number of bilateral or regional measures which incorporated the new issue-areas. Especially the United States and Europe distanced themselves from a universal approach. This phenomenon though not new became more prevalent, indicating a general trend towards protectionism and exclusive agreements.

GATT now faced the choice of confining itself to its original area of success, namely the reduction of tariff barriers for manufactured products, or to cross the threshold of expanding into the new issue-areas of trade in services, intellectual property rights and trade-related investments. In the former case GATT might have turned into an organisational dinosaur under the menace of extinction as a result of its inability to react to the new realities of world trade.

On the other hand, the extension of its agenda was seen as threatening GATT with failure. Its large and diverse membership was received as a potential obstacle to a successful conclusion of agreements on the controversial new trade-issues (Yarbrough and Yarbrough, 1994: 111). While the negotiations of

the Uruguay Round were under way, the issue of separate regional agreements became even more urgent. The NAFTA-treaty was concluded and the Single European Market Act came into force. Overall, GATT has been informed of 33 regional deals between 1990 and 1994 (The Economist 29th April 1995).

The alternatives became obvious: If no globally comprehensive GATT agreement could be reached, the new trade-issues would be left to initiatives of regional blocs with an inherent danger of conflicts between the major actors resulting in protectionism and potential trade wars. For the first time since the Second World War, the principle of multilateralism embodied by GATT was in jeopardy of being replaced by bilateralism and regionalism as the dominant ordering principles for the sphere of international trade. This would have set the institutional arrangements into sharp contrast with the general trend of the world economy, namely globalization, and in the long run might have induced the demise of the existing world trade regime.

As the completion of the Uruguay Round proves, most actors must have been willing and able to expand cooperation to new fields within the framework of GATT and adjust it to an altered environment (unlike 1971 when the political will to prevent the collapse of Bretton-Woods was apparently absent).

#### 4) The Agreements of the Uruguay Round and the Establishment of the WTO

On 15th April 1994 the agreements of the Uruguay Round were signed by most participating governments in Marrakech, Morocco. However, the Marrakech Agreements had been preceded by the longest round of trade negotiations ever which had started in 1986. At the end of that process, negotiators could present an agreement, which covered a widely expanded domain, included a number of substantial modifications and, last but not least, established the new world trade organisation.

Among the newly incorporated issue-areas are those of agriculture and textiles whose inclusion into GATT has predominantly been in the interest of developing countries as well as issue-areas whose incorporation into the GATT agenda has mainly been put forth by industrialised countries, in the first place the United States. Among the latter are trade in services and trade-related aspects of investment measures (TRIMs). The inclusion of such diverse issue-areas hints to extensive trade-offs which were necessary to foster an agreement.

One novelty played a major role. The agreements are designed as a package deal, denying states the opportunity to opt out of some agreements, while benefitting from others. In the following summary I focus on selective issue-areas I deem to be most conclusive.

##### i) The Agreement on Agriculture:

The fact that agriculture is now unambiguously under the auspices of GATT marks a considerable achievement. However, it will require further negotiations if the signatories want to move closer to the long-term objective spelled out in the preamble of the agreement, that is "to establish a fair and market-oriented agricultural trading system."

The agreement on agriculture contains binding provisions for the areas of market access, domestic support and export competition. An agreement on sanitary and phytosanitary issues has been attached to it. Perhaps the most significant aspect of the agreement on agriculture concerns the issue of market access. According to the new agreement, all forms of non-tariff barriers (NTBs) are proscribed and the only permitted means of protection are specific or ad valorem tariffs. All NTBs have to be converted into tariffs and these in turn have to be reduced by an unweighed average of 36%. Measures like quantitative import restrictions, variable import levies, minimum import prices, discretionary import licensing as well as voluntary export restraints and similar border measures have been generally outlawed in the agreement (Article 4, Par.2). This presents a major breakthrough. Previously, import quotas and variable import levies have been commonly employed, particularly by the European Union.

The tariffication of NTBs must be seen as a success. Ingco (1996) has pointed out the advantages of a tariff-based system, namely its transparency, its non-discriminatory character and its contribution towards a more predictable, less corruption-prone trade environment. Furthermore, she mentions the facilitative function of tariffs for competition in internal markets and for the adjustment of importing countries to world market changes (Ingco, 1996: 425).

However, a major setback for liberalisation relates to the tariffication process for the conversion of NTBs to tariffs and the reduction of base period tariffs (including those resulting from the conversion from NTBs). All base period tariffs have to be reduced over six years by an unweighed average of 36% (with a minimum of 15% in every tariff line). The reduction of tariffs is based upon the prices of the 1986-88 period. Guidelines for the calculations of tariff equivalents for NTBs can be found in Annex 5 of the agreement. States are required to refer to the period 1986-88 and to make calculations in a transparent manner, "using the actual difference between internal and external price". Ingersent, Rayner and Hine consequently criticise that the calculations of tariff equivalents is left to the discretion of governments

without adequate independent monitoring (Ingersent, Rayner and Hine, 1996: 710, footnote 3). They further claim that the chosen base period has been a period of historically low prices (ibid, 711). This results in high protection, as the specific tariff set in the tariffication process is defined by the price gap between domestic and world prices in the chosen period and the ad valorem tariff by the percentage difference between these prices.

The view that the chosen base period enables countries to preserve a high level of protection is supported by Ingco's study of the tariffication process. She provides evidence that states have used their latitude to set specific and ad valorem tariffs "higher than the wedge between actual domestic and world market prices in the base period, hence affording higher protection than prevailed in 1986-88" (Ingco, 1996: 433).

Furthermore, special safeguard provisions are included to cushion the impact of potential surges in the volume of imports or their prices. At least developing countries are provided with a minimum access quota of 3% (rising to 5%).

Concerning the issue of export subsidies, agriculture still receives special treatment. Export subsidies are legal. However, subsidies on commodities not subsidised in the base period are proscribed and the members' budgetary expenditure for existing export subsidies have to be cut by 36% over the next 6 years while the subsidised export volume has to be cut by 21%. The reductions for developing countries amount to 24% and 14% respectively (Article 9, Par.2, iv). Finally, in the field of domestic support countries have agreed on commitments to implement a 20% cut in Aggregate Measurement of Support which means not commodity specific. Due to the numerous exemptions (e.g. green box instruments like R&D; payments under production limitation programmes like those of the EU and the US), the domestic support commitments are at best modest (Josling, 1993).

For some time the unresolved dispute concerning agriculture jeopardised the conclusion of the Uruguay Round. The dispute between the EU and the US in the

sphere of agriculture was probably the most fiercely contested conflict of the Uruguay Round. While the liberalisation of the Japanese rice market also featured highly on the agenda, the dividing line was mainly between the United States and the Cairns Group<sup>2</sup> as adherents to liberalisation and the EU with a largely protectionist position.

Developing countries had divergent views on the issue. Prices were expected to rise by 10-30% in the course of the implementation of the agreements (Hamilton and Whalley, 1995: 34). Not surprisingly, agricultural net importers like Egypt were opposed to liberalisation, especially the reduction of export subsidies (ibid: 44). Brandao and Martin reconfirm these concerns as being justified. In their model of agricultural trade liberalisation, net food importing regions (Sub-Saharan Africa, the Maghreb region and the Mediterranean region) suffer welfare losses, whereas the global welfare gains are estimated at nearly US\$90 billion (Brandao and Martin, 1993).

The resistance against the agreement was still formidable in key countries. In Japan and some European countries, notably France, the farming lobby exerts influence out of proportion to the small share the sector holds pertaining to output and employment. This influence only becomes explicable in the context of public choice theories. In Japan the support of the rural electorate had for a long time been instrumental for the maintenance of power of the LDP (Mastanduno, 1995: 737; Howell and Wolff, 1992: 126/7). However, the LDP has lost its grip on power which has become more dispersed. The political developments paired with the continuing structural changes which saw a steady decrease of the share of agriculture -down to 6% of the labour force and 3% of GDP in 1991- seems to have somehow eroded the power of the protectionist farm lobbies in Japan (Kawagoe, 1995: 222). In France several features of the political and economic configuration resemble that of Japan, such as the

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<sup>2</sup> Member of the Cairns Group are Argentina, Australia, Brazil, Canada, Chile, Colombia, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand and Uruguay. This coalition shared an interest in the liberalisation of the agricultural sector.

reliance of the parties on support from voters in rural areas (Messerlin, 1996: 300). Again in parallel to the developments in Jāpan, the number of people employed in agriculture has gradually but steadily declined to 4.8% in 1994 (ibid: 301).

Overall, this means that in the short run not much liberalisation can be expected in the field of agriculture. Still, the Uruguay Round Agreement on Agriculture can be called a success beyond the fact that the issue-area agriculture did not block the conclusion of the negotiations. The major achievement is the establishment of a transparent and less discriminatory system which provides the framework for the long-term reform of agricultural trade and domestic policies towards market-orientation.

**ii) Agreement on Textiles and Clothing:**

With the conclusion of the Uruguay Round the textiles and clothing sector has eventually been integrated into GATT. The agreement under the umbrella of GATT replaces the Multifibre Arrangement which had regulated most of the trade in textiles and clothing through bilateral quotas. These discriminatory arrangements were a clear violation of Article I of GATT (MFN treatment).

Now, along with other GATT rules and disciplines, the principle of non-discrimination is finally applied to the sector. All MFA quotas have to be eliminated, the transition period is long though (until the year 2005). The liberalisation envisaged will be carried out over four stages. The starting point was a liberalisation of 16% of the import volume of each country in 1995, the next stages will feature the integration of another 17% of imports by 1998 and 18% by 2002. The remaining 49% of imports are to be integrated into GATT by 1 January 2005.

The removal of non-tariff barriers in the field of textiles and clothing is an act of substantial liberalisation. It is further-reaching than that in the field of agriculture, because, unlike for agricultural products, the agreement does not entail the substitution of quotas through higher tariffs.

The agreement, however, has been criticised for the delayed integration of 49% of imports, as critics suspect that the liberalisation in the early stages will only encompass products which are not sensitive for industrialised countries and such products predominantly from countries which receive preferential treatment anyway, as textiles from Eastern Europe do in the EU (Spinanger, 1996: 677). Concern has also been raised over the effects of the specific transitional safeguard mechanism accompanying the MFA phase out which allows NTMs to be applied under certain circumstances to products not integrated into GATT at that point of time (Hamilton and Whalley, 199: 45). However, a Textiles Monitoring Body (TMB) has been established to monitor the implementation of the agreements, including the safeguard provisions.

The changes, in particular the elimination of quotas, are crucial for many non-industrial countries (in terms of the Uruguay Round agreement non-ICs are all except for the EU, EFTA, NA, AUS, NZ, J, ZA). The textiles and clothing sector is of high significance for developing countries. It is their most important source of foreign exchange earnings from manufactures (Faini, de Melo, Takacs, 199 : 113), accounting for roughly 25% of their manufactured exports (Low and Yeats, 1995: 53). The sector has often been assigned enormous development potential, because the labour-intensive manufacturing process is generally regarded as one of the decisive steps towards industrialisation (Hamilton and Whalley, 1995: 37; Spinanger, 1996: 667). Spinanger refers to the progress made by Bangladesh since 1980 to support this claim. More significantly, the NTB-coverage ratio for textiles and clothing from developing countries was extremely high. According to a study by Low and Yeats (1995) non-tariff barriers were imposed on 64% of the clothing exports of developing countries to OECD members and on 52% of the textile yarn and fabric products. Low and Yeats predict a dramatic improvement for countries like Sri Lanka, Pakistan and Bangladesh where the share of manufactured exports covered by NTBs will decline by about 40 percentage points after the agreements have been implemented due to the preponderance of textiles and clothing among their exports of manufactures (Low and Yeats, 1995: 62). This reveals the far-reaching implications of the abolition of the MFA for some developing countries.

Compared with agricultural trade, the liberalisation progress looks more impressive in the area of textiles and clothing. The resistance to liberalisation among the major trading powers must have been moderate. One explanation is provided by the fact that the sectoral adjustment in major industrialised countries has progressed relatively far thus reducing the pressure of lobbying groups for more protection. The industries in the main exporting countries, the United States and Germany as well as Italy have profited from interfacing with their cheaper neighbours (Mexico for the US, Eastern European countries for Germany as well as Italy) (Spinanger, 1996).

I regard reforms within the EU as instrumental for the conclusion of the Uruguay Round agreements on trade in textiles and clothing. In the context of the abolition of NTBs, a lot of significance must be attributed to the fact that the Article 115 of the Treaty of Rome became obsolete in the course of the implementation of the Single Market Act. Article 115 "allows a Member Country to request non-application of Union treatment against a specific product from a non-member country. If permission is granted that product is exempt from the free circulation of intra-EU trade" (Froehlich, 1994: 23). Article 115 was predominantly invoked for the textiles and clothing industry (Froehlich, 1994; Sapir, 1989). After Article 115 had become ineffective as a means to keep out imports stemming from offshore processing trade of other members with Eastern European countries (like that between Germany and these countries), the more protectionist countries were deprived of protectionist measures against the bulk of cheap imports and might just have decided to agree to abolish the MFA system.

Similar to the negotiations on agricultural products was a split among developing countries. Some high cost suppliers with large quotas within the MFA framework, such as Korea, Hongkong, Taiwan and Brazil were concerned about the erosion of their export shares by low-cost suppliers from other developing countries (Hamilton and Whalley, 1995: 45). The MFA system had provided them with predictable though limited market access and the opportunity to profit from quota rents (Spinanger, 1996: 677).

### iii) General Agreement on Trade in Services

The General Agreement on Trade in Services (GATS) presents a framework of rules for principally all service sectors. However, basic telecom services, maritime and financial services are still under continuing negotiations in the WTO and it is still uncertain when they will be brought under the ambit of GATS. Likewise, the audiovisual sector has not yet been made subject to commitments.

All member states had to submit national schedules of commitments, indicating which sectors they intend to liberalise -that is granting foreign service suppliers market access (Article XVI) and national treatment (Article XVII). The national schedules cover the 4 modes of supply of services (cross-border, consumption abroad, commercial presence, temporary presence of natural persons) and list any restrictions on market access and national treatment. That means the most open trading regime exists when no restrictions to either market access or national treatment for any of the modes of supply are included in the national schedules.

Developed countries are clearly the more ardent supporters of service liberalisation while there are vast differences between developing countries (Altinger and Enders, 1996: 315/6). This is reflected by the number of commitments made by the signatories of the GATS. As table 1 demonstrates, most developing countries committed themselves only to the liberalisation of between 1 and 20 service activities. Liberalisation of at least one service activity was the precondition for membership in the GATS. Because of the package deal character of the Uruguay Round Agreements, countries had to join GATS in order to be eligible for membership in the WTO.

Table 1

## Number of Commitments of Service Activities of GATS Participants

Source: Altinger and Enders in *The World Economy*, 1996

More than 100	Austria, EU (12), Japan, Switzerland, United States
Between 81 and 100	Australia, Canada, Czech Rep., Hungary, Iceland, Norway, Slovak. Rep., Sweden
Between 71 and 80	Finland, Hong Kong, Rep. of Korea, Liechtenstein, New Zealand, South Africa, Thailand, Turkey
Between 61 and 70	Dominican Republic, Malaysia, Mexico
Between 51 and 60	Argentina, Poland, Singapore, Venezuela
Between 41 and 50	Brazil, Colombia, Israel, Kuwait, Morocco, Nicaragua, Philippines, Rumania
Between 31 and 40	Chile, Cuba, Pakistan, Ghana, India, Jamaica
Between 21 and 30	Aruba, Brunei Darussalam, Egypt, El Salvador, Kenya, Macau, Netherlands Antilles, Nigeria, Peru, Senegal, Uruguay
Between 11 and 20	Antigua & Barbuda, Benin, Costa Rica, Cote d'Ivoire, Gabon, Guatemala, Guyana, Honduras, Mauritius, Mozambique, Trinidad & Tobago, Tunisia, Zambia, Zimbabwe
Between 1 and 10	Algeria, Bahrain, Bangladesh, Barbados, Belize, Bolivia, Burkina Faso, Cameroon, Congo, Cyprus, Dominica, Fiji, Grenada, Indonesia, Madagascar, Malta, Myanmar, Namibia, New Caledonia, Niger, Saint Lucia, Sri Lanka, St. Vincent and the Grenadines, Surinam, Swaziland, Tanzania, Uganda

Overall, the liberalisation of service activities must be regarded as a major accomplishment taking into consideration that this is the first agreement of its kind in the field of services. The two principles which have been

highlighted in the GATS are that of most-favoured-nation treatment (Article II) and that of transparency (Article III).

The principle of most-favoured-nation (MFN) treatment is anchored in the GATS. However, member states can claim exemptions (Article II, paragraph 2) and have done so. At first glance the number of 350 exemptions may suggest that the non-discrimination principle has become diluted, but a more profound analysis indicates that many exemptions have been claimed in fields which are still subject to continuing negotiations like financial services, transport, and audiovisual services (Altinger and Enders, 1996). Others are concerned with reciprocal agreements on the protection of investments or the entry of workers. The proliferation of MFN-exemptions is prevented by the prohibition of new exemptions without the approval under the waiver provision of the WTO.

As far as transparency is concerned, governments have to publish all measures which have an impact on trade in services including domestic regulations (Article III). More importantly, member countries are obliged to provide service suppliers with procedures so that they are able to request review of administrative decisions (Article VI). The liberalisation of the service sector was most ferociously demanded by the United States and the European Union. This reflects the dominant position these two actors hold in the sphere of services (see table 2). Many developing countries were initially either indifferent or even adverse to liberalisation. Developing countries like Brazil and India with a strong regional presence in the service sector initially opposed liberalisation (Drake and Nicolaidis, 1992: 65-68).

Overall, the GATS increases the predictability of the service sector to a considerable extent. The fact that the sector has become "rule-based" and much more transparent is a major accomplishment.

Table 2: Leading Exporters of World Trade in Commercial Services, 1994  
(Billion Dollars and Percentage); Source: WTO 1995

		Export		GATS Comm.	Import	
		Value	Share		Value	Share
1	United States	178.2	17.0	>100	120.7	11.4
2	France	91.8	8.7	>100	70.2	6.6
3	Germany	63.1	6.0	>100	116.9	11.0
4	Italy	59.4	5.7	>100	58.5	5.5
5	United Kingdom	57.5	5.5	>100	48.1	4.5
6	Japan	57.2	5.5	>100	109.2	10.3
7	Belgium-Luxemb.	40.6	3.9	>100	35.2	3.3
8	Netherlands	39.6	3.8	>100	38.0	3.6
9	Spain	35.0	3.3	>100	19.2	1.8
10	Hong Kong	32.5	3.1	71-80	18.6	1.8
11	Austria	29.3	2.8	>100	21.4	2.0
12	Singapore	25.7	2.4	51-60	13.8	1.3
13	Switzerland	20.3	1.9	>100	11.9	1.1
14	Rep. of Korea	18.8	1.8	71-80	20.3	1.9
15	Canada	17.6	1.7	81-100	25.5	2.4
	EU (15)	468.4	44.6	-----	455.5	42.9
	EU+NAFTA+Japan	735.8	70.2	-----	723.0	68.1

#### iv) Agreement on Subsidies and Countervailing Measures

The Agreement on Subsidies and Countervailing Measures provides for the first time clear definitions for permitted and proscribed subsidies. According to the general definition as laid out in the agreement, "a subsidy shall be deemed to exist if (a)(1) there is a financial contribution by a government or any public body within the territory of a Member or (a)(2) there is any form of income or price support in the sense of Article XVI of the GATT 1994; and (b) a benefit is thereby conferred" (Article 1). The main distinction is made between specific subsidies and non-specific subsidies. Only the former are subject to the provisions of the agreement. Specific subsidies are those only available to an enterprise or industry or group of enterprises or industries within the jurisdiction of the authority granting the subsidy.

Subsidies are then divided into three categories. Prohibited subsidies are those which are contingent on export performance or the use of domestic goods (Article 3). They are always deemed to be specific (Article 2.3) and are thus proscribed. Actionable subsidies are those which are causing injury to the domestic industry of another member or are in general having an adverse effect on the interests of another member (Article 5). They can be brought before the Dispute Settlement Body (Article 7). The third category is labelled as that of non-actionable subsidies which cannot be taken before the Dispute Settlement Body. Non-actionable subsidies include non-specific subsidies, but also subsidies for R & D, disadvantaged regions and the adaption of new environmental standards (Article 8). This list reflects to a considerable extent principal concerns of the EU (regional funds), or both the EU and Japan (subsidies for research are essential for the strategic trade policies advocated by them).

Countervailing measures (duties imposed by the importing country to offset the effect of the subsidy) are subject to rules concerning proper investigations and procedures as prescribed in the Articles 11 ("Initiation and Subsequent Investigation"), 12 ("Evidence") and 19 ("Imposition and Collection of Countervailing Duties"). Before countervailing measures can legally be imposed by one member state on the product of another member, a determination of injury must be made which examines "(a) the volume of the subsidized imports and the effect of the subsidized imports on prices in the domestic market for like products and (b) the consequent impact of these imports on the domestic producers of such products" (Article 15.1). The establishment of a causal link between the subsidy in question and an alleged injury is required for the imposition of countervailing measures which is in conformity with GATT (Article 15.5).

The provisions of the agreement, especially the requirement to prove a causal link between a subsidy and an alleged injury, reduce the room of manoeuvre for arbitrary measures to a considerable extent.

#### v) Agreement on Safeguards

The agreement does not introduce a new issue-area, but is intended "to clarify and reinforce the disciplines of the GATT 1994, and specifically those of its Article XIX (Emergency Action on Imports of Particular Products)" (Preamble). Safeguard actions have often been applied in bilateral arrangements in the form of voluntary export constraints. Targeting those bilateral measures, the preamble further stresses "the need ...to re-establish multilateral control over safeguards and eliminate measures that escape such control."

Safeguard actions are intended to "protect a specific domestic industry from an increase of imports of any product which is causing, or which is likely to cause, serious injury to the industry. The agreement stipulates criteria for the assessment of a "serious injury" (Article 6) and sets out procedures to be followed in investigations.

Safeguard actions have generally to be applied indiscriminately (Article 5), that is following the principle of non-discrimination. As to safeguard actions in the form of bilateral agreements, which are undermining the multilateral character of GATT, Article 22 outlaws "grey area" measures, namely voluntary export constraints and orderly marketing arrangements. They all have to be phased out by the end of 1998, with one exception per country whose phase-out period extends until December 31, 1999 (Article 23). However, concern has been raised over a potential loophole which may allow countries very similar agreements to voluntary export constraints. Article 9 stipulates that a country "applying the restrictions may seek agreement with respect to the allocation of shares in the quota with all other members having a substantial interest in supplying the product concerned."

The agreement on safeguards spells out in detail what requirements the investigation process must meet to render the determination of a member state on safeguard actions valid. Under the provisions of the agreement member states have to prove a causal link between increased imports of the product in question and the injury to the domestic industry (Article 7, b).

Exporting countries affected by a safeguard action have the right to

compensation in the form of concessions of equivalent value (Article 16). On the other hand, retaliatory action against a safeguard action is illegal during the first three years that it is in effect, provided the safeguard action is taken in conformity with GATT rules (Article 18).

The agreement further stipulates encompassing surveillance and consultation rights for the Committee on Safeguards which is to be established under the authority of the Council for Trade in Goods.

While it is doubtful if the use of safeguards will be seriously impeded, the rule-based system increases market stability. Among developing countries the NICs may profit from the termination of grey-area measures, as many product groups in which NICs have a comparative advantage have been targeted (e.g. TV sets).

The European Union, while preserving an exception for itself in the annex to the agreement (diverse types of vehicles from Japan, until 31 december 1999), seems to have shifted the emphasis of its protectionist actions to regulatory actions (Howell, et al, 1992: 451). Besides, the agreement offers the EU more protection from unilateral action on the side of the United States.

However, the most plausible reason for the low intensity of resistance against the tighter rules for safeguard action could be that anti-dumping has become a more favourable tool of protectionism. In contrast to safeguard action anti-dumping does not imply a tacit admission that the domestic industry in question is not competitive (Low and Yeats, 1995: 59) which makes anti-dumping measures appear politically more advantageous and convenient. The notion of "policy-substitution" (ibid: 62) is supported by the fact that the overwhelming share of Anti-Dumping investigations can be attributed to the EU, the US, Canada and Australia (953 out of 1148 investigations from 1985-92: source: GATT International Trade and the Trading System: Report by the Director General 1992-1993; Geneva:GATT: 1993).

## vi) Organisational and Legal Structure

Included in the Marrakech Agreement are two important institutional arrangements which create a new organisational framework for the world trade regime: a) the charter for the WTO, and b) a new set of dispute settlement procedures.

### a) The WTO Agreement

While GATT was more of a forum than a full-fledged international organisation, the WTO agreement has established the WTO as a truly multilateral organisation with full legal personality (Article VIII, paragraph 1). The WTO has been granted privileges and immunities for the unimpeded pursuit of its function and for its functionaries (Article VIII, paragraphs 2 and 3). These privileges and immunities are commensurate to those stipulated in the Convention on the Privileges and Immunities of the Specialized Agencies from 1947 (Article VIII, paragraph 4).

Besides the elevation of the WTO to the level of an international organisation with full legal personality, the WTO Agreement also spells out its governance structure which now corresponds to the WTO's status as a multilateral institution in the international arena. The supreme organ of the WTO is the Ministerial Conference which is composed of representatives of all members and meets at least once every two years (Article IV, paragraph 1). Between the meetings of the Ministerial Conference its functions are taken over by the General Council (Article IV, paragraph 2). Each of the issue-areas mentioned in the Annex 1 agreements, namely trade in goods, trade in services and trade-related aspects of intellectual property rights is supervised by a specific council. Those councils "shall operate under the guidance of the General Council" (Article IV, paragraph 5).

A significant novelty is the establishment of a Secretariat of the WTO and the creation of the position of a Director-General of the WTO (Article 6). Article 6 stresses the independence and the "international character" of the responsibilities of the Director-General and his/her staff. This, again, reflects the new multilateral character of the WTO.

The WTO agreement provides more detailed rules for decision-making than the former GATT agreements. Article IX of the WTO Agreement which deals with decision-making emphasises the practice of decision-making by consensus. The practice of consensus has become established under GATT and, as Jackson points out, was featured by the avoidance of strict voting (Jackson, 1995: 18).

The provisions on decision-making procedures are also concerned with cases where consensus fails. As far as an interpretation of the diverse agreements is concerned, the adoption of such an interpretation requires a three-fourths majority of the members (Article IX, 2). The same majority is required for decisions on waivers (Article IX, 3). In this context, Jackson stresses the protection for national sovereignty built into the WTO Charter. He bases his claim on the assumption that a vote of three-fourths of all members is extremely difficult to attain (Jackson, 1995). However, on the other hand it can be argued that the national sovereigns have now submitted a part of their sovereignty to the multilateral decision-making body thus exposing states to the danger of being overruled. A three-fourths majority while difficult to accomplish is less of a constraint to the organisation than a general insistence on consensus or even unanimity.

#### b) Understanding on Rules and Procedures

##### Governing the Settlement of Disputes

A considerable transformation has taken place on the level of the legal capacity of the WTO. The establishment of a unified dispute settlement system presents a significant innovation (Baldwin, 1995: 168). The rules and procedures pertaining to dispute settlement are administered by the newly established Dispute Settlement Body (Article 2, 1). As Hudec has pointed out, "automaticity" has become a salient feature of the dispute settlement process (Hudec, 1994, as quoted in Baldwin, 1995: 168). The formation of panels, adoption of their reports and, in case of non-compliance, the legality of retaliatory action are all part of an automatic process thus strengthening the multilateral dispute settlement system. Deviating from the previous approach to dispute settlement, the adoption of panel reports can only be rejected by

the Dispute Settlement Body if it does so by consensus (Article 16, 4). Under GATT the adoption process itself had required consensus enabling any single country (e.g. a party to the conflict) to block a decision on dispute settlement. The agreement also provides for the establishment of a standing Appellate Body. It is assigned to decide about appeals against panel cases (Article 17, 1). The adoption of an appellate report, like that of a panel report, can only be refused by consensus of the Dispute Settlement Body (Article 17, 14). The independent character of the WTO is manifested by the composition of the appellate body. The members of the appellate body are required to be unaffiliated with any government and it "shall be comprised of persons of recognised authority" (Article 17, 3). If the findings of a panel or the appellate body reveal that measures brought before the DSB are not in conformity with the agreements, its recommendations will require the member state concerned to bring the measures in question in conformity with the respective agreement (Article 19, 1). If that member state fails to comply with the recommendations or immediate compliance is impracticable, it should try to agree on mutually acceptable compensation with the members which brought the matter before the DSB. If no accord can be met, "any party having invoked the dispute settlement procedures may request authorization from the DSB to suspend the application to the member concerned of concessions or other obligations under the covered agreements" (Article 22, 2).

Overall, the WTO has a much more robust infrastructure for dispute settlement and surveillance at its disposal, including the trade policy review mechanism (Cline, 1995: 10). The changes in the organisational structure seem to give the WTO more power than GATT ever possessed. However, Jackson is emphasizing the restraints on majority vote and decision-making in the WTO-Charter. He claims that ambiguous GATT provisions have simply been defined more clearly in the charter of the WTO and stresses the continuity which can be expected in the search for consensus (Jackson, 1995: 18), but he denies the notion that the WTO holds more power than GATT did. This argument touches on the crucial question of how much real power the WTO has been entrusted with and how much sovereignty states still possess within the WTO framework.

## IV

### An Interpretation of the Uruguay Round:

#### Regime Change & Successful Cooperation

In this section I want to point out that a regime transformation has, indeed, taken place. I contend that such a transformation can be measured in terms of changes in the body of substantial rules, but it can only be analyzed with the normative level as gauge. I suggest that the changes in the body of rules and procedures provide evidence for a regime transformation beyond purely incremental developments. Subsequently, I will claim that an interpretation of the new framework of norms shows that the regime has been strengthened at the expense of sovereign states.

On the palpable level of substantive rules, the GATT regime has undergone fundamental changes in two areas: a) the scope of the regime and b) its organisational and legal structure.

A significant alteration of the world trade regime is manifested in the vastly expanded scope of the world trade regime. A comparison between the coverage of the pre-Uruguay Round GATT and that of the post-Uruguay Round WTO makes it difficult to deny that the world trade regime has been transformed. Several issue-areas have been included which have for a long time been left out by the diverse rounds of trade negotiations. The coverage of world trade by the WTO has increased by roughly 60% compared to the pre-Uruguay Round state.

The organisational dimension has also undergone major restructuring which underpins the assertion that a regime change has occurred. The acquisition of legal personality and the establishment of further-reaching dispute-settlement procedures support the notion that the Uruguay Round agreements did not just conclude another round of trade negotiations, but exhibit features of a marked regime transformation.

I assert that a regime transformation has been initiated with the conclusion of the Marrakech agreement which goes beyond the superficiality of a nominal change of the main organisation of the world trade regime from GATT to the WTO. Two dimensions, the organisational form and the scope of the world trade regime, have undergone considerable changes whereby the changes in the scope of the regime are surely the more impressive and significant. The nature of the regime change which is manifesting itself on the level of substantial and procedural rules has to be established now. To this purpose I will analyze the relationship between the norms underlying the GATT regime. I will claim that a significant shift of emphasis has occurred on the level of regime norms, that is a shift in the balance between interdependence norms and sovereignty norms.

## 1) The Uruguay Round and GATT Norms

### i) Interdependence Norms

#### a) Non-Discrimination

The conversion of NTBs into tariffs in the field of agriculture and the outlawing of bilateral quotas and other NTBs for the textiles and clothing sector was a big step towards non-discrimination, as the prevalence of tariff barriers means that all exporting countries face the same barriers. Generally, tariffs apply indiscriminately irrespective of the country of origin. In the field of safeguard measures, the MFN-principle has to be applied now (against the resistance of the EU which used to rely heavily on bilateral quotas for the conduct of its trade relations), measures cannot normally be taken against selected countries only (if they are, then only under the auspices of the Safeguards Committee). All bilateral measures are to be phased out.

The fact that the principle of MFN-treatment is incorporated in the GATS must be seen as a success for adherents to the principle of

multilateralism. Numerous MFN-exemptions exist within the GATS. However, many concern areas where no results have been finalised. The most serious threat to the non-discrimination norm still emanates from the expansion of regional integration, as preferences are explicitly permitted for such zones. Exceptions granted to developing countries also disturb the picture of undiluted non-discrimination. However, their rationale of fostering development does not jeopardise the multilateral character of the GATT to the same extent as the exclusive regional arrangements.

However, the crucial point is that the non-discrimination norm has been strengthened compared to the Tokyo Round with its exclusive agreements. The fact that voluntary export constraints have been outlawed in the Uruguay Round (and existing ones have to be phased out) contributes to this trend. Voluntary export constraints had been negotiated bilaterally between specific countries diluting the non-discrimination norm, in contrast to unspecifically imposed import restrictions.

#### b) Liberalisation

The role the liberalisation norm played in the negotiations can be gauged in terms of coverage of issue-areas (the width of the regime) and as to what extent barriers to trade are to be removed (the depth of the regime). As far as the width of the world trade regime emerging from the Uruguay Round is concerned, a substantial expansion of its coverage is undisputable.

As a result of the subjection of the issue-areas of agriculture, textiles and clothing, and services to general GATT principles, a much higher share of world trade has come under the ambit of the WTO. Merchandise Exports without agriculture and textiles amounted to about 3330 Billion Dollar in 1994. Agriculture and Textiles add 760 Billion Dollar and trade in commercial services was estimated at 1100 Billion Dollar. In value terms, the new issue areas increase the coverage of world trade by GATT/the WTO by about 60%. This does not take into consideration that services often serve a dual function of being an output product in itself and, secondly, a prerequisite for manufacturing and trade transactions, as services provide the required infrastructure (transport, communication, financial services). The

significance of the integration of services into GATT becomes conceivable only with this catalysing function in mind.

The success of the Uruguay Round in expanding its traditional domain is obvious, however, the Round's achievements pertaining to the removal of barriers to trade should not be underestimated either. Further reductions in the level of tariffs are one of the accomplishments, although tariff levels were already low as a result of the successive rounds of negotiations. This applies in particular to trade among industrialised countries. However, the accord of industrialised countries to abolish all tariffs in the areas of construction, agricultural and medical equipment, steel, beer and distilled spirits, pharmaceutical products, paper, toys and furniture is still a success (Baldwin, 1995: 169).

A more impressive area of success is that of non-tariff barriers (NTBs). While in the Tokyo Round the codes referring to NTBs were only signed by a small number of countries, the Uruguay Round has turned those rules into an integral part of each country's commitments by making them part of the package deal. First of all, NTBs have to be abandoned in the field of textiles and clothing and they have to be converted into tariffs for agricultural products. Besides, voluntary export constraints (VERs) and other "grey area measures" have been outlawed. The only areas which can be referred to as setbacks for liberalisation are those of anti-dumping and subsidies, the provisions thereof being very resilient.

I am aware of the obstacles to a general liberalisation of world trade, in particular in the fields of agriculture and services, and I am convinced some issue-areas will defy progress in liberalisation for many years to come. However, I stress the enormous progress which has been made in comparison to previous rounds. The share of world trade covered by the WTO will be much higher than that of GATT. The coverage of formerly excluded areas and the virtual elimination of many non-tariff barriers are major steps forward towards liberalisation, even though the liberalisation process will happen very gradually. Therefore I contend that the significance of the liberalisation norm has undoubtedly been enhanced.

### c) Transparency

The Uruguay Round sets out conditions for formerly vaguely defined measures (safeguards, anti-dumping) and obliges all countries to follow the procedures laid down in the GATT provisions pertaining to the settlement of disputes within the multilateral framework of the WTO. Furthermore, the provisions stress the obligation of all members to provide information on all measures and regulations related to the conduct of international trade relations.

In general, rules have been spelled out much more clearly. Therefore tighter limits on arbitrary unilateral action exist, enhancing the stability and the predictability of the trade environment. One example is the removal of non-tariff barriers for textiles and clothing and the tariffication in the field of agriculture. Another example is the fact that tariffs on over 50% of the imports of developing countries will be fixed which means they cannot be raised unilaterally without the provision of compensation (Baldwin, 1995: 169). Waivers cannot be expanded by individual states beyond their current coverage unless an exemption is granted by the WTO bodies. This applies to agriculture, MFN-exemptions for service activities and safeguards. Many areas which were formerly at the discretion of states and often the target of capricious unilateral action are now subjected to multilateral procedures. Therefore it is justified to speak of the transparency norm as the key norm of the Uruguay Round.

### ii) Sovereignty Norms

In contrast to the interdependence norms, the sovereignty norms have rather been weakened.

#### a) Safeguards

A palpable attenuation of the sovereignty norms is observable in respect to safeguard provisions. GATT members were formerly allowed to take a "safeguard" action to protect a specific domestic industry from an unforeseen increase of imports of any product which is causing or which is

likely to cause serious injury to this domestic industry (Article XIX of the General Agreement). Often countries resorted to bilaterally negotiated voluntary export constraints. The Marrakech agreement outlaws these VER and other "grey area" measures and phases out any safeguard measures contradictory to the agreement by the end of 1998 (one exception per country until December 1999). The agreement stipulates under what conditions safeguards are legal. By defining the conditions under which safeguards can be legally employed it limits the discretion of states.

The provisions of Article 19 prohibit retaliation of exporting countries for the first three years after the imposition of WTO-conform safeguard actions. The latitude of the sovereign states has been restricted through the amended safeguard provisions. After the criteria which determine the legality of safeguard measures have been spelled out, arbitrary measures are rendered illegal. Of course, the sovereign state could still implement measures at will, but not under the disguise of justified and legal protection. Safeguard actions are now very much rule-bound and can only be taken under the surveillance of the Safeguards Committee. While still an important norm, the safeguard norm has lost a lot of its sharpness.

#### b) Reciprocity

Reciprocity is certainly still a key concept for negotiations. However, it seems as if state interactions were following a pattern of diffuse reciprocity in the Uruguay Round. Diffuse reciprocity implies that the reciprocal concessions a country receives in turn for its concessions may involve a different issue-area (Keohane, 1986). Secondly, the time horizon is different from that of specific reciprocity. Diffuse reciprocity is based on long-term considerations. States insist on reciprocal concessions, but the wide range of issue-areas and the long times horizon indicate the impossibility of reaching predictably balanced outcomes. This means plainly that states cannot be certain that they will exactly gain what they expect to gain. The element of trust is a much more essential prerequisite for interactions under diffuse reciprocity. A Tit-for-Tat approach is inherently incompatible with diffuse reciprocity.

There is, however, nothing new about diffuse reciprocity as a concept underlying trade rounds. In the case of the Marrakech Agreements the time horizon is more protracted than before and the array of issue-areas for tradeoffs has been enlarged. Compared with an item-by-item approach, the control over the outcome is further removed from the sovereign state, limiting its discretion. However, the package deal character of the Uruguay Round agreements indicates that states are still aware of the danger of free-riding. The fact that a nation has to accept all agreements of the Uruguay Round, including those of the GATS, TRIPS, TRIMs (investment), and the dispute settlement and trade policy review procedures, to be a member of the WTO, prevents states from selecting only desirable agreements. The concept of diffuse reciprocity prevails, removing immediate control over outcomes from states. Nevertheless, reciprocity is still a powerful norm.

To sum up, I suggest that interdependence norms have been strengthened in the Uruguay Round. However, the reciprocity norm still plays a significant role. The general application of the non-discrimination norm suggests that the multilateral character of the world trade regime could be maintained. The picture pertaining to liberalisation is positive, but not completely unambiguous. While the progress of liberalisation was impressive in some issue-areas, it can be described as only incremental change in others. The overall result is promising, but the ambiguity of rules on liberalisation in other fields cautions against an interpretation of the Uruguay Round as a breakthrough for full liberalisation.

In contrast, the norm of transparency proved to be prominent in all fields of negotiations in determining rules and procedures which can be expected to increase the predictability of the international trade environment. The paramountcy of the transparency norm can be interpreted as a shift towards a rule-based regime, more removed from the discretion of states than previous outcomes. This shift of emphasis towards a more rule-based regime limits the possibilities for capricious state intervention in international trade.

This interpretation of the substantive rules is mirrored by the analysis of the body of procedural rules. Multilateral procedures have gained a lot of clout. Monitoring has become considerably strengthened through the establishment of surveillance bodies like the Safeguard Committee and trade policy reviews. Even more significant is the shift towards multilateral procedures in the field of dispute settlement. The judiciary process has become virtually decoupled from sovereign states, as the multilateral bodies of the WTO have been put in charge of dispute settlement. On the surface the individual state appears to have become almost incapacitated, as it has lost its veto power to block dispute settlement decisions. In line with that are the organisational arrangements which require that the secretary of the WTO and the appellate bodies are unaffiliated with any government.

However, states have immeasurably more clout if it comes to rule-making. The most powerful countries are still in charge of any rule-making process and the WTO has not been granted rule-making powers on its own. It is hard to overlook the fact that the major powers have a large array of overt and covert threats at their disposal and many options for issue-linkages which makes it possible for major powers to exert influence.

In the field of dispute settlement this asymmetric power balance also lurks behind the facade of equal voting power. While the dispute settlement process grants states equal rights, the power balance between the states concerned comes to bearing for the implementation of the panel's dispute settlement decisions. The panel can legitimize sanctions, but the implementation of sanctions is left to the individual countries. It is difficult to imagine that a country like Guatemala would go ahead with retaliatory trade sanctions against the United States, regardless whether they are legitimised by a WTO panel or not. In toto the world trade regime still depends on the will of the major powers to support it. This is very obvious in the fields of rule-making and rule enforcement. The WTO on its own is as powerless as a state which only controls the judiciary.

Despite those organisational weaknesses the WTO has been strengthened compared to its predecessor if it comes to rule-making and implementation. General compliance to the rules of the regime can be assumed, as the maintenance of the reputation of states requires compliance to the rules they have agreed on (Keohane, 1984: 106). Under that assumption, the emergence of a more transparent trade system and the establishment of a relatively independent organisation have increased the discretion of the regime and have decreased the latitude of the state.

It must be stressed though that there is neither a paradigm shift visible, nor does the shift of emphasis between norms indicate a revolutionary change of the regime. The shift on the level of regime norms and the changes of procedural rules should rather be interpreted as a moderate change towards a rule-based regime than as the revolutionary emergence of a supranational body governing the sphere of trade. What is remarkable, though, is the amelioration in relative strength attributable to the world trade regime in comparison with the regime which had been constituted by the agreements of the Tokyo Round.

The most striking result of this analysis is the fact that cooperation has intensified within the world trade regime. Indeed, the fact that the complexities of the bargaining process of the Uruguay Round could be overcome suggests that the case of GATT's transformation can be seen as paradigmatic for successful multilateral cooperation, in the course of which an existent regime was not only maintained, but its ambit expanded and its discretion enhanced. What I contend to be paradigmatic for successful international cooperation, now has to be explained.

2 Shared Beliefs, Interdependence and  
the Impact on Cooperation:  
The Irrelevance of Relative Gains

The fact that the scope of cooperation in the sphere of world trade has been expanded is a strong indication that states must have been willing to submit parts of their sovereign powers to the regime constituted by the Uruguay Round agreements. What factors have fostered or impeded cooperation?

The interpretation of the Uruguay Round agreements indicates which issues remained as serious obstacles to successful cooperation. The insights gained will allow us to draw conclusions as to what conditions are conducive to cooperation, and, subsequently, to test theories of international cooperation.

In the following section I will claim that the problem of relative gains was not an issue among the participants of the Uruguay Round. Furthermore, I assert that a correlation can be found between the congruence of systemic orientation of states and their membership in the WTO.

I contend that a rule-based regime will only be constructed if most actors (or at least the most powerful ones) agree on the main principles. A hegemon would be in no need to establish a rule-based system, as its hegemonic position is sufficient to achieve its goals without the support of a body of formal rules. Other, less influential states are in no position to impose a body of rules.

In the case of the world trade regime, the major actors seem to concur that a rule-based regime which is principally based on competition is preferable to one based on state intervention. This corresponds with Cable's analysis of the sphere of world trade (Cable, 1996). The shared belief in the primacy of free-market tenets has determined the efforts to liberalise trade. Free-market tenets are more commonly held now than in the earlier GATT decades. Trade liberalisation since about 1980 has been induced by the process of globalization and the emergence of the global village, as an "unprecedented

wave of technological change" has resulted in an explosion of dynamic gains from international trade (Peeg, 1996: 232). Additionally, the collapse of the Soviet Union led to the demise of socialism as a viable alternative to free-market models.

The free-market principle forms the ideological basis which underpins the strive for transparency and liberalisation. The linkage between free-market principles and liberalisation is self-evident. Transparency, however, is required as a prerequisite for unimpeded trade flows.

States could agree on the minimization of capricious state intervention, but strong interest groups limited the success of liberalisation. This is the most plausible interpretation for the key role of the transparency norm and the fact that the prominence of the liberalisation norm varied across different issue-areas. This hypothesis is supported by the observation that protectionism is most persistent in old industries (Froehlich, 1994: 26-27) and agriculture. In these sectors long established lobbying groups have the strongest clout.

As a consequence of the stronger accentuation of free trade and a commensurately stronger role of the norms of transparency and liberalisation, the regime has been strengthened. I propose that this policy orientation towards a rule-based global trading system shared among the major actors was crucial for successful cooperation manifested in the conclusion of the Uruguay Round.

The statement that in the economic sphere most major actors agree that their relations should be conducted according to free-market principles should not make us inclined to ignore the existing differences between, for example, the United States and Italy, or the Netherlands and Japan. This does not mean either that all countries give free way to market forces in their trade relations. This would be an oversimplified and naive picture and would, by the way, render the WTO redundant. The idea I want to convey looks at the world trade regime as being on a spectrum between the extremes of a completely open

market system and one of autarky in which states are not trading with each other. I contend that on this continuum the world trade regime has moved further towards a more open system over the past years.

This becomes comprehensible in the light of the recently unchallenged dominance of free-market tenets. Governments with formerly more state-controlled approaches to the conduct of economic relations have shifted towards less state influence (notably France). It is beyond the scope and purpose of this paper to cast light on the root causes of this development. I briefly mentioned the delegitimization of socialist ideas in the course of the collapse of the Soviet Union and the impact of globalization.

Shared beliefs about which ordering principles should govern an issue-area do not necessarily lead to cooperation, but they diminish the array of potential obstacles. The general acceptance of liberal tenets as the guiding principles for the economic sphere results in an open world economy. This in turn has given rise to patterns of interdependent relations.

The systemic congruence between the industrialised countries has been described by Goldgeier and McFaul (1992). They refer to a congruent systemic orientation between what they label core countries (the United States, Western Europe, Japan and at least the Asian tigers). Their contention that these core countries share the same beliefs about ordering principles and are bound together by relations featured by interdependence has far-reaching implications for the prospects of cooperation. As Goldgeier and McFaul argue, systemic congruence and patterns of interdependence dramatically lessen the security dilemma.

"Rather than balancing core states are seeking to bandwagon, not around a power pole but around a shared set of liberal beliefs, institutions, and practices" (Goldgeier and McFaul, 1992: 480).

In such an amicable environment relative gains are rendered irrelevant for the major industrialised countries. If the major parties are agreeing on the same

order, there is no reason to assume that it is in any party's interest to overthrow the system. The possibility of Gilpin's hegemonic war can be excluded if only actors with convergent systemic views are involved. However, relative gains may well be of significance in respect to actors who do not share common beliefs about the ordering principles of international relations.

We could derive the hypothesis that actors who share principles about the desirability of a certain order are more likely to cooperate, as they can afford to neglect relative-gains considerations. In contrast, actors who cannot agree on the same ordering principles, or are uncertain about each other's intentions, are unlikely to cooperate, as relative-gains seeking makes it difficult to find a balancing and thus mutually satisfying solution.

This may well lead us to the conclusion that the character of the relations between the industrialised countries, namely the common systemic orientation and their interdependence, was vital for successful cooperation in the world trade regime. This hypothesis finds its manifestation in the apparent irrelevance of relative gains for the member states of the WTO.

Realist theories claim that relative-gains seeking is the obstacle most difficult to overcome if states want to achieve mutually beneficial cooperation. However, the scope of cooperation realised within the WTO suggests that relative-gains seeking seems to have been a manageable issue. I argue that relative gains are not under consideration in the economic sphere for the industrialised countries. For they are bound together in interdependence and share the same beliefs in the welfare increasing function of free-market tenets and, to a lesser extent, democratic principles (Goldgeier and McFaul, 1992). Relative gains are only an issue, if countries are perceived as security threat and have a discordant systemic orientation.

This argument is theoretically supported by a study done by Powell (Powell, 1991). He introduced the possibility of the use of force into a formal model of cooperation. His results show that "if the use of force is at issue because the cost of fighting is sufficiently low, cooperation collapses in the model.

This is in keeping with the expectations of structural realism." On the other hand - and much more relevant and insightful for our study of the world trade regime - Powell shows that "if the use of force is no longer at issue, cooperation again becomes feasible" (Powell, 1991: 1311-1316).

In addition to the attributes of economic relations which are relaxing relative-gains seeking, the concurrence of the systemic orientation of the main actors eases relative-gains concerns.

The feature of interdependence is crucial for an explanation of cooperation, as it provides the reason for the insignificance of relative gains for the relations between the major industrialised countries, as nowadays the use of force is not feasible between them. Potential relative gains cannot be used to accelerate the security dilemma, as the industrialised countries in the relations between each other are not facing anything remotely resembling a security dilemma. Their relations are properly described by Karl Deutsch's notion of a pluralistic security community that is "one in which there is real assurance that the members of that community will not fight each other physically, but will settle their disputes in some other way" (Deutsch, 1957: 5-7). Calling the likelihood of war between Germany and France or the United States and Canada a low-probability event is still an understatement. Even most ardent realists will agree up to that point. This, however, does not refute the realist approach to cooperation. To make this point clear, I am not denying that relative-gains seeking can prevent international cooperation if the actors involved perceive a precarious security situation in their relations with each other.

Assessing the list of members of the WTO and that of countries whose membership is left in limbo (see appendix) is largely supporting this hypothesis. Several analytical limitations have to be noted: Firstly, it is extremely complicated to define what is to be considered a threat. It is even more complicated to illuminate who perceives who as a potential future threat. To rephrase it, the factor "k" is extremely difficult to measure.

An analysis of the member states of the WTO does not show that all members are organising their economies according to free-market principles. It must be said that a lot of Third-World countries with different ideas of how to organise international relations lack capabilities to be ever perceived as security threats.

The list suggests other interesting correlations. While Western countries are not at extremely cordial terms with all members, it is an insightful observation that no country has become a member state of the WTO which is regarded as a security threat in the short or the medium run. Countries generally seen as troublemakers in the West have been denied access to the organisation. This applies to the People's Republic of China as well as to volatile Russia and the other former republics of the Soviet Union. This also applies to most Arab states, with the notable exceptions of Egypt (a key ally of the United States in the Middle East) and the oil-rich Gulf Emirates.

This makes us rethink the issue of absolute and relative gains for international cooperation. I contend that relative gains do play a role, if uncertainty over a state's foreign policy orientation exists. The major countries whose admission has been blocked do not stick to free-market policies, but more crucial is probably that their foreign policy is regarded as unpredictable and aggression has either occurred or is deemed to be possible in the near future. In this case the sensitivity of states to gaps in payoffs favouring other parties increases considerably directing our attention to the relative-gains for cooperation.

The factor "k", used in Grieco's "Cooperation among Nations" as a measurement for a state's sensitivity to gaps in payoffs, becomes a valuable tool for analysis, provided "k" can be measured to some extent. The major problem is to attach a numerical value to this factor. This would be necessary to assess what critical value the "k"-factor must not exceed to make cooperative agreements still viable.

With cordial relations as a starting point, states are more likely to cooperate. The convergence of principles makes cooperation more feasible, because gaps in relative-gains and a shift in power capabilities are unlikely to have systemic consequences.

In the case of the WTO, "k" seems to be too high in the utility functions of Western countries if they assess their relations with the People's Republic of China, Russia and Arab states. Consequently, negotiations about their accession to the WTO are staggering and their outcome is uncertain. Political factors other than security concerns do also influence the decisions on the admittance of new members. Taiwan's accession would possibly result in major turmoil in the diplomatic arena as well as in the very real East Asian setting. This hinders its admission, although Taiwan is generally not perceived as a security threat by Western states.

The dispute settlement procedures of the WTO defer more autonomy to the organisation. Within the framework of the WTO the United States cannot legitimately resort to the infamous section 301 of its trade laws. While it may cause inconveniences and dissatisfaction on the side of United States if they lose a case before the WTO panels against a country like Malaysia, this does hardly have vital consequences. Malaysia may receive relative gains on the expenses of the United States, but Malaysia does not put into question the free-trade regime as such, nor does a country like Malaysia threaten US security interests or seems likely to do this over the next decade. Things, however, look remarkably different if China or Russia are concerned. If either of them benefits from relative gains due to their membership in the WTO, it is more likely that a systemic threat arises bolstered by such gains. Once a country is a member of the WTO exclusion becomes very difficult. If its vital interests were at stake, the United States would certainly choose to abandon the agreement and enforce sanctions unilaterally. However, the current situation in which the United States can unilaterally withdraw most-favoured-nation status granted to China in their bilateral relations is preferable.

The problem of unilateral action has already arisen in a different context this year. The announcement by the United States of it passing a law which allows sanctions against companies doing business with Iran, Libya or Cuba puts relations with major trading partners under strain. This is a very practical case of relative gains seeking versus absolute gains seeking. The United States is concerned about potential relative gains in the case of countries like Iran and Libya, because there is a strong likelihood that they provide financial and logistical support for terrorist groups. The United States even forfeits absolute gains in terms of business contracts. In sharp contrast, the European States and Japan are not allowing concerns about links with terrorism to get in their way. Their single interest is the maintenance of commercial links, increasing their absolute gains.

The problem in relation to the WTO is the attempt of the United States to enforce unilateral sanctions on companies from third countries dealing with Iran etc. This would be a clear injury of GATT provisions. Drawing from the earlier discussion, unilateral action can be a very costly way of defending its position, as the whole liberal trade regime would be put at risk and the United States would lose in terms of reputation. In order to avoid situations in which the United States (as the alleged or actual guardian of Western interests) may have to resort to unilateral action to defend its interests, countries are denied accession if their foreign policy and systemic orientation seems to be loaded with uncertainty. The denial of accession can be accomplished by gathering one third of the members in the Ministerial Conference which is the organ responsible for decisions on accession (Article XII of the WTO Agreement). This is a target well within reach for the influential Western countries. Compared with the uncertainties of the dispute settlement process, the direct power over accession seems to be the more forceful and less risky way to deal with the problem of potential troublemakers and their relative-gains. This strategy corresponds well to the risk-averse behaviour expected from a defensive positionalist (Grieco's term).

However, for the case of the world trade regime under the WTO it holds true that the main actors and beneficiaries have convergent core interests and are

not security threats to one another. This situation corresponds with Goldgeier's and McFaul's core-periphery model. Relative gains seeking was not an issue for the negotiations of the Uruguay Round, making the accomplishment of far-reaching cooperation feasible and leading to a process of strengthening of the regime.

### 3 Cooperation in the World Trade Regime: Remaining Obstacles

The analysis of the change of the world trade regime has produced interesting insights into cooperation in the sphere of trade. Relative gains were apparently not significant for negotiations between the GATT members. I attribute that to the convergent ideas about the advantages of a principally competition-based system among the major actors and to the fact that patterns of interdependence have developed which make armed conflict more or less inconceivable between the so-labelled core-countries. The convergence of ideas rules out the possibility that any country has an interest in overthrowing the system thus rendering relative gains insignificant.

In contrast to relative gains, absolute gains were an object of conflict in the Uruguay Round. While absolute gains seeking is an inherent feature of virtually all bargaining processes, two other problems encountered in the negotiation process reveal areas of potential conflict on a much deeper level and pose a serious threat to cooperation.

Many of the most controversial issues were linked to either different cultural preferences or to protectionist and uncooperative attitudes of vested interests and domestic constituencies.

The fact that some vested interests hold disproportionate influence on the formation of national interests can cause severe problems for cooperation. The prime example of the capturing of the national interest by sectional interests

has often been the agricultural sector. The French farm lobby has become notorious for jeopardizing agreements for the sake of their narrow interests and on the expense of all other interest groups (see for example Messerlin, 1996).

The second, and even more problematic, issue is that of cultural differences within the framework of free-market approaches. The issue of cultural differences proves to be highly explosive for the global character of the world trade regime. The question if managed trade is desirable is just the most obvious expression of different systems of "capitalism". Vincent Cable's insightful article on the inherent contradictions between universal rules and cultural diversity (Cable, 1996) has pointed out the multifaceted character of problems related to the emergence of globalization. While recognizing a broad consensus on a rule-based system of governance for international trade and, to a lesser extent, on the beneficial character of liberalisation (ibid: 228/9), Cable highlights several areas in which discord prevails.

One issue which was already controversial during the Uruguay Round was the issue of strategic trade. It presents a potential obstacle for cooperation, as it is assumed that strategic industries offer above average rates of return for a country due to their spill-over effects on other industries. The fact that strategic trade indeed represented a serious problem for cooperation within the GATT/WTO framework can be deduced from the outcome of negotiations on subsidies. Japan and the EU, which are more closely affiliated to the concept of strategic trade than the United States, demanded the exclusion of subsidies for R & D from the agreement on subsidies and they succeeded.

The broadly defined notion of "cultural preferences" encompasses a whole array of problems. Different approaches to ownership and management among market economies, as they have been analyzed by Hampden-Turner and Trompenaars (1993), can form a formidable obstacle to universal standards. The best example is the conflict between the western trading powers and Japan. The complaints of the EU and, predominantly, the United States about the inaccessibility of the Japanese market expose that essentially competitive

market systems can be organised in different ways. The problem is that the Japanese economy is based on a system of vertical hierarchies which is an integral part of what is referred to as the keiretsu system (Noland, 1995: 243)<sup>3</sup>.

"Keiretsu are inherently exclusionary" (ibid) and such exclusionary market arrangements are perceived by outsiders as unfair trade arrangements. Such a line of argument must be regarded, though, as a simplification, as it disregards the fact that Japanese companies may likewise be victims of the exclusivity of vertical hierarchies (ibid).

However, the issue of different business cultures has not been addressed in the Uruguay Round. The launch of the Structural Impediment Initiative in 1989 signalled a tacit acknowledgement of the United States that structural barriers can hardly be negotiated away on a governmental level. The limited success achieved in this area indicates that the field of cultural diversity remains an explosive topic for the liberalisation of trade.

The negotiators participating in the Uruguay Round were somehow lucky that the issue of "cultural preferences" has had an impact only on very few areas of negotiations. The ferocity of the quarrel between France and the United States over liberalisation of the audiovisual sector provided observers with the glimpse of an idea how loaded the issue of cultural conventions can be. In the end the audio-visual sector did not have the economic significance for the United States as making it worthwhile to risk the Uruguay Round. Consequently, it grudgingly gave in, leaving the sector outside the GATS agreement for the time being. Broadening the definition of "cultural diversity" beyond the issue of different business cultures leads to extremely conflict-prone topics such as "different preferences in respect of environment and human rights" (Cable, 1996: 230). In the Uruguay Round these issues were of secondary importance,

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<sup>3</sup> "A keiretsu might consist of a group of large core firms horizontally linked across markets, together with their vertically linked input suppliers, and possibly a captive distribution network" (Noland, 1995: 243).

but in the long run the WTO will be confronted with controversies surrounding them.

The array of problems for cooperation I have outlined above poses a challenge for regime theory. If a theory aspires to explain the act of cooperation in the field of world trade as well as why cooperation did only produce suboptimal outcomes in certain areas (agriculture), it cannot afford to circumvent the issues raised. A striking feature of the problems mentioned is that they all touch on questions related to the domestic context and interest formation therein. The issue of "cultural preferences" can only be dealt with in the context of social conventions and ideas prevailing in a specific domestic environment. This requires theories to interrelate the international and the domestic context. Even more so in the future, when cooperation cannot be achieved through the reduction of tariffs and other, relatively palpable, barriers, but only if a harmonisation of social standards is accomplished. The Uruguay Round might have been the last round of negotiations in which cultural barriers were not at the forefront of issues.

The importance of the dimension of cultural values and beliefs supports the claim that the dimension of beliefs and norms has to be incorporated in any study of international cooperation. This necessitates theories to treat the dimension of ideas and beliefs as an endogenous variable.

In the opening chapter I delineated the main line of argument of several theories of cooperation which I regard as representative for the main schools of thought involved in the discourse on cooperation. With a more profound knowledge about the underlying agreements, I can now measure the explanatory value of different theories against the gauge of the WTO reality.

## V

### Regime Theories and the World Trade Regime

In the course of my analysis of the Uruguay Round agreements I have established that a shift on the level of regime norms of the world trade regime has occurred, as a result of which the regime has been strengthened. I regard this as tantamount to successful cooperation. Relative gains were apparently not significant for negotiations between the GATT members due to convergent ideas about ordering principles and patterns of interdependent relations. I claim that parasimonous approaches which use only structural variables and restrict their analysis to the dimensions of power and capabilities fail to explain this transformation of the world trade regime and cooperation therein. I suggest that only theories with at least two independent variables, one measuring the dimension of power capabilities and the other one relating to the sphere of ideas are adequate for regime analysis in the field of international economic relations. Exemplary for such an approach, I will outline Ruggie's concept of power and social purpose as determinants for regime change (Ruggie, 1982). I contend that only such a multidimensional concept can provide a plausible explanation for cooperation in the world trade regime.

## 1) Explaining Cooperation in the World Trade Regime

### i) The Contribution of Rational Theories

The findings pertaining to the apparent irrelevance of relative gains does not render the whole array of realist approaches void. For example, Grieco's theory of defensive positionalism does cater for the whole range of possible relations between states, from very cordial to relations of pronounced hostility. In his model only the factor "k" indicates to what extent gains of the other party are important for one's own utility. In cases of long-standing cordial relations, the factor "k" in a state's utility function

$$U = V - k (W - V)$$

simply indefinitely approximates 0. As a result, the part of the utility function representing the partner's payoff becomes so marginally small that the utility function is reduced to a state's own payoff.

What makes the relative gains argument so precarious is the realists' claim that the utility function might change, a long-standing friend might turn into an enemy. However, according to Lipson, the higher margin of error a state can afford in the economic sphere renders this point dismissable in economic affairs (Lipson, 1985: 17-18). Besides, in the case of the WTO a quick response is possible. A state can cancel its membership in the WTO with half a year notice, if it, for example, perceives membership as a threat to national security.

While realist models might be able to reflect very cordial relations, as Grieco's does, they are not able to contribute very much to the debate how cooperation can come about. Grieco's model of defensive positionalism only states that the obstacles to cooperation are lesser if relations are cordial (as relative gains are insignificant), but it cannot make any

statements about other factors conducive to cooperation. If we want to illuminate the causes for intensified cooperation in the world trade regime, we must complement the model with other theories.

Realist theories which do attempt to explain cooperation are the different strands of hegemonic stability theory. Their explanation of cooperation focuses on the variation of just one variable: the power configuration of the international system. As we have seen, the logical link hegemonic stability theory makes is straightforward: if a hegemon exists, there will be a regime. If no hegemon exists, then the international system plunges into a state of instability or even anarchy. The advantage of this model is its simplicity and predictability as regards the evolution of regimes. The trouble with this simple and strongly causal relationship is that it cannot explain the cooperative behaviour leading to the transformation from GATT to the WTO. The period in which the transformation of the world trade regime from GATT to the WTO falls is featured by a development from American hegemony towards a multipolar economic system. Another hallmark is that the anarchy predicted by structuralists is still missing and, as far as the industrialised countries are concerned, severe conflict does apparently not lurk behind the surface.

Looking at the economic power configuration the significant question is if the United States is still in a hegemonic position. A judgement on this question mainly depends on the indicators used for a gauge of hegemony. Measurements like the overall size of the economy, the share of foreign investments, the share of trade, and lead in key technologies, suggests that the United States while still the single largest power is not in a position of hegemonic predominance any more. This is obvious if one takes the European Union as a unitary actor. The combined GDP of the EU member states exceeds that of the United States. A justification of a "bloc" approach can be based on the fact that the European Union acts as one unified actor in negotiations in the sphere of trade.

Table 3 shows the shares of the leading exporters of merchandise trade. The United States though being the leading exporter are far from dominance. Pertaining to trade in services the situation looks more favourable for the United States (see table 2, p.58), but does not indicate a position of hegemony for the United States either.

Table 3: Leading Exporters and importers of world merchandise trade, 1994 (Billion Dollars and Percentage); Source: WTO 1995

		Export Value	Share	Import Value	Share
1	United States	512.5	12.2	689.2	15.9
2	Germany	424.0	10.1	378.0	8.7
3	Japan	397.0	9.4	275.2	6.4
4	France	234.8	5.6	228.8	5.3
5	United Kingdom	205.0	4.9	227.2	5.2
6	Italy	189.5	4.5	167.5	3.9
7	Canada	165.4	3.9	155.1	3.6
8	Netherlands	155.1	3.7	139.4	3.2
9	Hong Kong	151.5	3.6	165.9	3.8
10	Belgium-Luxemb.	140.1	3.3	131.0	3.0
11	China	121.0	2.9	115.7	2.7
12	Singapore	96.8	2.3	102.7	2.4
13	Rep. of Korea	96.0	2.3	102.3	2.4
14	Chinese Taipei	92.9	2.2	85.5	2.0
15	Spain	73.1	1.7	92.2	2.1
	EU (15)	1659.7	39.5	1604.9	37.0
	NAFTA	758.7	17.5	925.8	21.4
	Japan + 4 Tigers	834.2	19.8	731.6	16.6

In the sphere of world trade the power configuration has been transformed into a multipolar one. We are nowadays dealing with three major trading blocs (the EU, NAFTA, and a looser Asian bloc) whose cohesion admittedly considerably varies.

However, the United States are still in a position to exert considerable influence, especially as their high share of imports can be translated into significant leverage in negotiations.

The American position has deteriorated in relative terms, while the standings of the EU and Japan have improved since the 1970s. We therefore address a situation in which the power structure has changed. As to the predictions of hegemonic stability theory, it is obvious that they do not apply. According to that line of thought, the alteration of the structural variable, namely the rise of a multipolar world, would point, if in any, into the opposite direction of what can be observed in the world trade regime. Hegemonic stability theory would predict chaos (alternatively named hegemonic war by Gilpin).

However, in contrast to that prediction cooperation within the world trade regime could be maintained and even expanded. However, this does not mean that we are living in an era of perfect harmony -according to our definition, harmony and cooperation are mutually exclusive, as the former renders the latter redundant- but the occurring conflicts are very mundane.

Although hegemonic stability theory fails to explain cooperation in the case of the world trade regime, the focus on the feature of hegemony nevertheless generates interesting insights. Cooperation and the creation or expansion of regimes can be related to hegemony. The correlation is, however, different from the predictions of the mainstream theory. Crone has suggested that a hegemon which is in decline will attempt to institutionalise the rules which so far had favoured its hegemonic position (Crone, 1993). His hypothesis is based on the analysis of economic relations in the Pacific region. Crone shows convincingly that the first institutions for economic cooperation have been established after the United States had virtually lost its hegemony, but while it still remained the strongest economic power in the region.

It seems to be the most astute and far-sighted behaviour on behalf of a hegemon in decline or stasis to institutionalise rules as long as its power

still allows the hegemon considerable leverage in negotiations. The crucial question is why a hegemon in decline is still able to institutionalise rules at its will? It seems to be a difficult undertaking, unless that objective is supported by other major actors.

At least, it can be argued that the United States had a strong preference for a successful completion of the Uruguay Round, as its hegemony was slipping away. While the preferences of the United States in favour of a conclusion of the Uruguay Round can be derived from its position of vanishing hegemony, the preferences of other major actors are not self-evident. This invokes the question which other factors were instrumental for the outcome of the Uruguay Round.

In the case of the Uruguay Round, the features of the issue-area trade suggest that negotiations were conducted in a setting resembling iterated games. The iterated game character is reflected in the transaction type of diffuse reciprocity. Negotiations encompassed manifold issue-areas and the implementation stretches over a long time horizon, implying that the element of trust has played a major role. In game-theoretic terms, the payoff structure must have been featured by future payoffs which were not highly discounted.

If Schelling's model of k-groups is applied to the case of the WTO, it can be suggested that for a number of states cooperation, and thus the expansion of the world trade regime, must have appeared beneficial regardless of other states' behaviour. In the issue-area of services, it is remarkable that only a very small group of states was inclined to liberalise more than 100 service activities. Most countries (developing countries but also some NICs) restricted liberalisation to a bare minimum of service activities. Surprisingly, this did not result in a failure to finalize an agreement. The minimal commitment made by many states apparently still sufficed the demands of the most ardent adherents to liberalisation. For each of the major players (United States, the EU and Japan) it was sufficient that the other major players liberalised too.

The intriguing insight that the minimum k-group was sufficient to initiate cooperation supports Snidal's theoretical findings, who had used a model including 3 major players (corresponding with the reality in the sphere of international trade with the three major "blocs"). However, this interpretation cannot automatically be transferred to all issue-areas. In some sectors in which negotiators accomplished only suboptimal outcomes a sufficiently large "k-group" could not be gathered. Again other issue-areas are featured by the participation of all actors (safeguards, subsidies or the whole range of procedural rules). This somehow limits the applicability of the "k-group"-model to selected issue-areas (services, and, to a certain extent agriculture, where just the United States and the EU can be regarded as "k-group" whose cooperation was the prerequisite for any agreement).

I propose that it is necessary to illuminate the actors' preferences if one wants to arrive at a satisfactory interpretation of the overall agreement. Cooperation in some spheres might be explicable through the use of the minimum-k-group model. However, the sustained effort to get beyond sectoral agreements and to finally agree on an encompassing framework for the conduct of trade relations, even though this meant forfeiting advantages in some issue-areas, requires a more profound analysis of the underlying preferences of actors. The establishment of a rule-based international trade system must have been ranked highly above any other solution (it must have been preferred over failure, but also over the mere maintenance of the existing GATT).

Unfortunately, rational choice theories are not very helpful in generating insights into the structure of preference rankings. The main weakness of structural theories and game theoretic approaches is that they take actors' preferences over outcomes as given. Following Powell's argument on the use of structural theories, preferences over possible outcomes are to be differentiated from preferences over actions (Powell, 1994: 318). Game theories make very distinct predictions over outcomes based on the actor's preferences for optimal action. Unfortunately, preferences over outcomes are set exogenously. This makes any game theoretic approach dependent on a theory from which the game structure is derived (Snidal, 1985, 2: 44). Game models can

potentially cope with a very high complexity. Their versatility makes them potentially useful for explaining cooperation or its failure, dependent on the availability of theories on states' preferences and thus the possibility of deducting a plausible payoff structure reflecting "real world situations". The lack of such a complementary theory sets the limit for a valuable application of game theories to real world contexts.

The deficiencies of structural theories and game theories with their deliberate negligence towards the formation of interests and preferences over outcomes are most succinct if applied to the economic sphere. Their hypotheses are rendered potentially inefficient if applied to an issue-area in an amicable international environment where survival is not at stake. It has been pointed out that a ranking of preferences is more self-evident in the security field (primacy of a state's survival). In the field of security issues the ranking of preferred outcomes is often quite clear (survival always as supreme goal, peace preferred to war, etc), whereas the preferences for certain arrangements in the economic sphere are much more elusive (Powell, 1994: 320).

Looking at the economic sphere, one must take into consideration that non-state actors have their share in the formation of preferences. The state is certainly still supreme, but the interest the state is defending in the economic field is not a clear-cut national interest, it is the interest of the nationals (Goldgeier and McFaul, 1992). As a result the process of interest-defining has been dramatically changed by the emergence of non-state actors. Multinational coöperations for example have a strong interest in open markets, regardless of which states in particular are gaining or losing.

"State actions that damage individual and corporate gains from an international free market risk domestic resistance and refusal. The 'national' interest must now compete with the interests of the nationals" (Goldgeier and McFaul, 1992: 476).

Not surprisingly, private sector leaders have assumed a more assertive role in promoting trade liberalisation (Peeg, 1996:232). The observation of growing

collaboration between private sector leaders in North America, Europe and Japan (ibid: 232) reconfirms that a congruent systemic orientation exists between the industrialised core states.

I do not contend that non-state actors are equal to states, but they do have influence on a state's interest formation. While there is only one determinant for preferences over outcomes in the field of security policy, that is the national interest, there are many interests, and potentially divergent ones, attempting to mould the state's preference ranking in the economic sphere. The process of interest-formation can only be analyzed exhaustively if the domestic context is at the focal point of analysis.

The preferences over outcomes can be more easily ranked for security issues and then considered as being exogenously given, whereas in the economic sphere such a method can seriously distort the analysis. In cases of threats - immediate or long-term- it may be appropriate to concentrate on structural features in order to gain insights into states' behaviour. Interests and preferences over outcomes can be taken as exogenously given, as actors can be expected to pursue the policy option enhancing the chances for the state's survival. In general, game theories are designed to mirror situations in an anarchic environment. This tends to make them more applicable to the field of security policy. In contrast, the international economy is featured by interdependence and a strong influence of non-state actors like multinational cooperations. This brings us back to the argument that game theories cannot and do not aim at explaining preferences over outcomes.

Another set of rational choice theories, that of functional theories, refute the notion put forward by realists that egoism and anarchy render cooperation impossible. Functional theories can account convincingly for the emergence and maintenance of cooperation under the assumptions of rationality and egoism. With their emphasis on lower transaction costs and reduced uncertainty they are able to show that cooperation can be perfectly rational. The long-term perspective resembles the character of iterated games which effectively end the Prisoner's Dilemma. The problem with functional approaches is that they

do not go beyond the assertion that cooperation is rational and, consequently, that regimes are able to fulfil their functions. In the case of the world trade regime, functional theories convincingly convey the idea that cooperation serves the purpose of lowering transaction costs for trade transactions. The expansion of the regime becomes explicable if one applies Keohane's idea that the emergence of new issue-areas gives rise to demand for a set of multilateral rules in those fields. Additionally, the maintenance of the regime seems plausible in the light of the costs imposed on all actors if a multilateral regime was to be replaced by innumerable bilateral agreements. However, an explanatory gap is left by functional theories. The demand for an expansion of the regime had arguably been there before. Why have countries agreed on the intensification of cooperation at that particular juncture?

Most issues have proved to be problematic since the 1970s (the whole range of non-tariff barriers, safeguard actions -in particular voluntary export constraints-, the field of agriculture). I contend that the reason for the regime transformation lies in the general preference for a more rule-based system the roots of which can be found in the convergent policy orientation of the main actors. The shift towards a competition based system can only be explained on the level of norms and commonly shared beliefs. Functional theories, unfortunately, do not pay attention to the process of interest formation beyond rational calculations.

However, as soon as the structural configuration gives the actors some freedom for the construction of an international order, the origins of interests and preferences are to be scrutinized. This means the construction of preferences over outcomes has to be contextualised with ideas. Only an analysis of the underlying set of ideas and beliefs can illuminate why the void of a power configuration is filled with certain norms and ordering principles and not with others.

## ii) The Contribution of Cognitive Approaches

The strand of cognitive theories with its emphasis on consensual knowledge and the influence of epistemic communities proves essential in elucidating how the interest of states was shaped in the early stages of agenda-setting. In their analysis of the influence the epistemic community had in the development of the agreement on services (GATS) Drake and Nicolaidis (1992) point out that the epistemic community can direct the process of interest formation. However, they had to concede that the influence of the epistemic community decreases dramatically once the interest of states is defined and the bargaining process begins.

As we are largely interested in the process of interest formation (rational theories provide valuable ideas about the outcome of negotiations once the preferences over outcomes have been defined), the knowledge that consensual knowledge and epistemic communities are influential in defining preferences is intriguing enough. Drake's and Nicolaidis' analysis of the emergence of the interest in the service sector emphasises the pace-setting role the predominantly Anglo-American epistemic community played in defining a conceptual framework for negotiations on service activities (Drake and Nicolaidis, 1992). In the early stages the terms of discourse were determined to which other members had to respond later (ibid: 40).

Obviously, it is paramount what the content of consensual knowledge is and what basic beliefs are shared among the members of the epistemic community. Most influential are the variables of ideology and historical experience.

The Anglo-American community had been pace-setting in the creation of the multilateral trade regime of GATT after the Second World War (Gardner, 1986; Ikenberry, 1992). Throughout the past four decades the members of the epistemic community involved with GATT were exposed to a predominantly liberal approach to world trade. Therefore one can expect a liberal bias to prevail among negotiators who have had long-standing relations with GATT. The process of organizational learning has had an impact on the individuals involved. The belief that a predominantly liberal trade system which relies on strong rule-

abidance is most beneficial for all members might have become entrenched in the minds of the people most influential in negotiations.

It has been suggested that a formula, a shared perception or definition of the issue-area and the related problems, would foster an agreement (Joensson, 1993). In constructivist terms, the institutionalisation of free trade has reconstructed the identities and interests of actors in such a way that the norm of rule-abidance to the rules of the world trade regime has become an integral part of the intersubjectively defined relations of states.

In the case of the world trade system, the common perception seemed to have been that trade is mutually beneficial. Over the past decade the belief has spread globally that a generally competition-based trade regime is preferable to one based on state intervention (Cable, 1996). Linked to that, in the aftermath of the end of the Cold War and the collapse of the Soviet Union, liberal tenets have gained preeminence. While the trade policy of the United States has been determined by free trade principles for a long time (Goldstein, 1986), other main actors have embraced those tenets just recently and are still in the process of restructuring their policies. A prime example for such ongoing changes is France (Messerlin, 1996). The accord on the benefits of competition seems to be more or less unanimous, though the shift towards liberal tenets is gradual and uneven (Cable, 1996). According to cognitive approaches one can expect the predominant belief system to dominate the discourse in an issue-area and to shape the conceptual framework.

Our findings that the world trade regime has made some progress in the field of liberalisation and has taken a big step forward towards a rule-based trading system corresponds with the prevailing belief system at the time when the negotiations came to a close. However, this does not necessarily indicate that ideological factors and consensual knowledge are solely responsible for an outcome in one issue-area. The analysis of the GATS negotiations cautions us to examine the limits of cognitive approaches. The negotiations about GATS provide strong evidence for the existence of some limits on the power of epistemic communities to influence bargaining processes. Once national

interests have been defined "power and bargaining dynamics increasingly determine which of the ideas put forward earlier will be selected and how they will be modified and embodied in the future regime" (Drake and Nicolaidis, 1992: 41). The influence of knowledge and ideology seems to be instrumental in defining interests. Once that has happened though, the actual outcome of negotiations is determined by the power capabilities available to support the respective interests of states.

We require a theory which is flexible to take into consideration the different stages of negotiations, as the explanatory leverage of different factors varies according to what stage of the process of interest definition and subsequent implementation we are in.

### iii) Making the Link: The Synthesis of Power and Ideas

Regime analysis faces the problem that any one-dimensional approach, focusing either exclusively on the power structure of the system or on ideas and the knowledge of epistemic communities etc., proves to be too narrow to provide a satisfying explanation for cooperation in the field of international trade.

I suggest that international cooperation can only be adequately analyzed through a framework which includes the structural dimension as well as the level of ideas and beliefs. One approach which is exemplary for a multi-dimensional theory is Ruggie's analysis of the postwar economic order (Ruggie: 1982). He conceptualises regimes in a framework of power and social purpose and treats both variables as regime-constituting.

Ruggie bases the existence of regimes on certain underlying principles of order (ibid: 380) and equates the formation and transformation of regimes with a specific manifestation of the internationalisation of political authority. Ruggie then proceeds to a decomposition of authority into the

two elements of power and social purpose. His view of authority is deviating from the traditional realist conception of authority as derived only from capabilities. Their position is representatively stated by Waltz who maintains that the elements of international authority "are barely once removed from the capability that provides their foundation..." (Waltz, 1979: 88).

Although Ruggie does not deny the importance of power, he contends that a specific power configuration can only account for the form of the international order, but not its content (Ruggie, 1982: 382). This is a sensitive point, as just power alone cannot explain the character of the post-war order. Another hegemon than the United States would probably have constructed a different economic order with commensurate implications for the respective regimes. The world trade regime would have supposedly looked quite different, if Schachtian principles had been underlying and had come to bearing (ibid: 382).

This bipartite conception of authority as the basis for regime creation and transformation is an appealing approach for our analysis of the world trade regime, because it employs two variables as the constituents of a regime: power and social purpose. What Ruggie has labelled "social purpose" covers the dimension of ideas and beliefs. If a state has adopted a certain set of beliefs as guiding principles for its behaviour, it will try to implement this belief system in the international arena.

Both if varied can produce profoundly different outcome, while e.g. hegemonic stability theory offers only one independent variable, the power structure, for the explanation of regime creation, regime maintenance or its demise. In my analysis of the world trade regime I want to outline how an encompassing explanation of international cooperation could be convincingly delivered. In this summary I combine the insights of the two main strands of regime theory, which I had outlined above.

If we are concentrating on the dimension of power and capabilities, we gain some insights. Rational choice theories have provided some plausible

explanations for the expansion of cooperation. The emergence of tripolarity in the economic sphere might have evoked the United States to institutionalise a rule-based trade system and in game-theoretic terms cooperation is explicable in terms of "k-groups". However, I contend that this is insufficient and we must gain explanatory leverage to explain how the interest in maintaining the regime came about in the first place. What belief system defined the interest of states?

According to Ruggie's theory of embedded liberalism, the second variable -the social purpose of the main actors- must be examined. The concept of social purpose is used to fill the form of a certain power configuration with content. Only the two elements of power and ideas combined result in a specific order, wherein the power held by states is the instrument to establish, or cement, an international order which corresponds to their set of ideas.

In the case of the WTO, a combination of factors seems to provide the most plausible explanation for successful cooperation within the world trade regime. The emergence of a multipolar power configuration in which the main actors concur on the basic principles for international trade proved to be highly conducive to intensified cooperation. The common orientation towards competition and away from capricious state intervention found its expression in the establishment of a firmly rule-based trade regime within which liberalisation takes place on a commonly acceptable pace.

## 2) General Lessons for the Study of International Cooperation

I suggest that cooperation is much more likely between countries who are not concerned about relative gains seeking among one another. While this is not a new idea, I, however, suggest that the analysis of belief systems should precede the analysis of the strategic situation of actors. The degree of relative-gains seeking corresponds negatively with the extent to which the systemic orientation, based on their belief systems, among actors is congruent. If actors share the belief in the desirability of a certain order, they are unlikely to overthrow the system constituting that precise order.

As Powell has pointed out, "a concern for relative gains is an effect and not a cause" (Powell, 1994: 337). Relative gains seeking is elicited by the strategic environment of a state, or rather, the perception of it. The perception of a security dilemma induces relative-gains seeking thus obstructing cooperation. Relative gains seeking and a failure to cooperate are therefore both part of the outcome whereas the explanation lies in the strategic environment of states (ibid: 337). For an analysis of a state's perception of its strategic environment, however, the level of ideas is paramount.

The prospects for cooperation can to a large extent be derived from an analysis of the ideas of the main actors. If the set of ideas of the major actors is congruent, as it was in the case of the world trade regime with the main actors agreeing on the preferability of a rule-based largely market-oriented trade system, then a security dilemma is more difficult to conceive thus reducing the desire for relative-gains seeking. If the process of interest formation results in an interest in a certain kind of order, which is shared by the main actors, the main obstacle to cooperation has been overcome. Nevertheless, constellations are conceivable in which the realists' assumption hold, namely the relevance of relative-gains

seeking due to conflicts in other issue-areas. This requires a very encompassing and profound analysis of actors' interests and their underlying belief systems which must not be confined to one issue-area. While the People's Republic of China might arguably share an interest in an open trading system, conflicts in the security sphere turn relative-gains considerations into the supreme criteria for cooperation. Only if actors share a whole range of beliefs across issue-areas, then relative gains are irrelevant.

Once relative gains seeking is not an issue, the bargaining process can concentrate on the distribution of absolute gains and, in the case of the world trade regime, on the issue of cultural preferences.

## VI

### Conclusion

The conclusion of the Uruguay Round and the establishment of the world trade organisation was a key juncture for the world trade regime. Beyond the nominal change from GATT to the WTO the agreements expanded the scope of the world trade regime and changed the organisational structure and legal status of its principal organisation. On the level of regime norms a shift of emphasis took place granting the interdependence norms a more significant role. The discretion of the regime enhanced. This can be equated with intensified cooperation among the member of GATT. The process of successful cooperation becomes explicable in the context of a convergent systemic orientation between the major powers. Their adherence to an essentially competition-based approach to international trade is manifested in the paramountcy of the transparency norm. That implies a move away from capricious state action towards a rule-based system.

As far as theories of international cooperation are concerned, the case of the world trade regime urges us to resort to a multidimensional approach which can combine the strong points of both rational and cognitive theories. In order to explain the instance of cooperation, it proved to be imperative to include the level of interest formation in the analysis. I contend that the shared set of beliefs forms the key variable for an explanation of cooperation. Consequently, I deem structural approaches which externalise the process of interest formation insufficient for the economic sphere. On the other hand, any theory which exclusively focuses on the sphere of ideas is likewise doomed to fail, as an analysis of the bargaining process does not allow to ignore the existing power configuration. Therefore we have to combine two sets of theories in order to explain the process of interest formation on the one hand and the outcome of negotiations on the other hand, as the latter always reflects the configuration of capabilities.

## Appendix:

### WTO Membership

Angola, Antigua and Barbuda, Argentina, Australia, Austria, Bahrain, Bangladesh, Barbados, Belgium, Belize, Benin, Bolivia, Botswana, Brazil, Brunei Darussalam, Bulgaria, Burkina Faso, Burundi, Cameroon, Canada, Central African Republic, Chad, Chile, Colombia, Costa Rica, Cote d'Ivoire, Cuba, Cyprus, Czech Republic, Denmark, Djibouti, Dominica, Dominican Republic, Ecuador, Egypt, El Salvador, European Community, Fiji, Finland, France, Gabon, Gambia, Germany, Ghana, Greece, Grenada, Guatemala, Guinea Bissau, Guinea, Rep. of, Guyana, Haiti, Honduras, Hong Kong, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Jamaica, Japan, Kenya, Korea, Kuwait, Lesotho, Liechtenstein, Luxembourg, Macau, Madagascar, Malawi, Malaysia, Maldives, Mali, Malta, Mauritania, Mauritius, Mexico, Mongolia, Morocco, Mozambique, Myanmar, Namibia, Netherlands - For the Kingdom in Europe and for the Netherlands Antilles, New Zealand, Nicaragua, Niger, Nigeria, Norway, Pakistan, Panama, Papua New-Guinea, Paraguay, Peru, Philippines, Poland, Portugal, Qatar, Romania, Rwanda, Saint Lucia, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Senegal, Sierra Leone, Singapore, Slovak Republic, Slovenia, Solomon Islands, South Africa, Spain, Sri Lanka, Surinam, Swaziland, Sweden, Switzerland, Tanzania, Thailand, Togo, Trinidad and Tobago, Tunisia, Turkey, Uganda, United Arab Emirates, United Kingdom, United States, Uruguay, Venezuela, Zambia, Zimbabwe.

### WTO Accessions

The following 33 governments have requested to join the WTO.

Albania, Algeria, Armenia, Belarus, Cambodia, People's Republic of China, Chinese Taipei, Congo, Croatia, Estonia, Georgia, Jordan, Kazakhstan, Kirgыз Republic, Laos, Latvia, Lithuania, Former Yugoslav Republic of Macedonia, Moldova, Nepal, Russian Federation, Saudi Arabia, Seychelles, Sudan, Sultanate of Oman, Tonga, Ukraine, Uzbekistan, Vanuatu, Vietnam, Zaire.

Source: WTO Membership List, 1996.

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