Introduction: reconstructing the world trading system

No science can be more secure than the unconscious metaphysics which tacitly it presupposes.

– Alfred North Whitehead

I. Overview: making sense of world trade in the twenty first century

A. The contract model and its discontents

International trade has become an integrated part of our everyday lives. Many, if not all, of the foods we eat and the clothes we wear today are consequences of trade, one way or another. Not a single day passes without contemporary media covering several reports on world trade. During the past six decades of the modern trading system, the volume of world trade increased more than twenty times. During the same period, the average tariff rate on manufactured products in developed countries decreased from 40 percent to less than 4 percent. It appears that those rounds of trade negotiations for the past six decades have paid off.

The typical pattern of conventional trade negotiations is reciprocal bargain. For example, Country A would cut its own tariffs on goods that Country B exports in return for the latter cutting its tariff on goods that the former exports. In other words, each country’s market opening, measured by tariff concession, was (and still is) the price that the country paid to gain its own market access to its trading partner. Indeed, political

scientists and legal scholars alike have long regarded the world trading system, represented by the General Agreement on Tariffs and Trade (GATT) and more recently the World Trade Organization (WTO), as a contract among its sovereign signatories. The GATT members in fact labeled themselves as “contracting” parties. The chief goal of this world trade contract is to liberalize trade and to monitor protectionism.

The contract model makes sense at least for the following three reasons. First, reciprocal bargains on tariff reduction have historically been a main engine for market opening, as discussed above. Second, this agency-oriented model enables scholars to build sophisticated theories using various econometric methodologies (models). Third, traditional public international law also deems a treaty, such as the GATT and the WTO, a sovereign contract, as stipulated in the Vienna Convention on the Law of Treaties. However, the traditional state-to-state contract model has recently become anachronistic as it hardly captures the new pattern of trade. The prototypical GATT was based upon single-country production, a “monolocation production” model of trading patterns, while the contemporary equivalent is, by far, more complex, as it involves value-added production in multiple countries, that is, a “multilocation production” model. Until relatively recently, most products were harvested or manufactured entirely in a single country and shipped to another country. For example, if Argentina produced and shipped wheat to England, this trade was understood as if Argentina exported and England imported. Under this unsophisticated trading paradigm, trade policies were prone to capture by domestic producers, as trading nations competed against each other to maximize net exports (exports minus imports).


Now, the old production-trade model has increasingly become unsustainable with the advent of new trade realities, such as the global factory. For example, Indian textiles may be shipped to China, turned into clothes, and eventually exported to the United States. Recent technological innovations and other logistic breakthroughs have facilitated this new trend. In this new production and trade pattern, global business is “nonterritorial . . ., decentered yet integrated space-of-flows, operating in real time.” Under these circumstances, each negotiating country might not be able to represent a single, converging national position, considering the complicatedly disparate nature of interest matrices held by numerous economic players participating in various global value chains (GVCs).

Likewise, the GVC revolution has also altered the nature of trade barriers. Within GVCs, not only direct barriers but also those barriers between third parties may clog an upstream or downstream flow of international commerce. In other words, any remote, unknown trade restriction by an anonymous trading nation might affect one’s own trade interest. This new possibility eloquently demonstrates the hidden yet firmly existent organic interconnection among economic actors, both state and individual, within the contemporary world trading system. It would be in any trading nation’s interest not to disrupt these tightly knit value chains.

This transformed trade reality goes beyond the typical assumption of the contract model. Here, it is nearly impossible to satisfy the cardinal condition for reciprocity, i.e., equivalence, which is the baseline postulate

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of the contract model. The reciprocal balance, which connects trading nations in a mechanical, not organic, manner, would be very difficult, if not impossible, to compute. In fact, conventional trade statistics cannot accurately picture the new trade landscape as it is predicated on the monolocalization production model that focuses mainly on gross volume of export and import. It is prone to a mercantilist state-to-state rivalry for trade surplus, yet incapable of portraying underlying sophisticated transnational business transactions.

Moreover, the contract–bargain model tends to naturalize protectionism as an inevitable status quo. The model remains largely neutral to protectionism as a normative concern. Note that the transition to free trade has never been fully completed. Although states agreed to lower levels of protection through negotiations over time, they did not relinquish primarily protectionist stances vis-à-vis each other. While trade is more open and fewer barriers now exist than during the interwar period, the current system is still a managed trade system with a quid pro quo negotiation structure that pits one party against another. This structural deficiency has been dramatically exposed in the aftermath of the global financial crisis, which has spread rampant protectionism across trading nations.

trade-facilitating measures have declined, trade-restrictive measures have surged. Only 20 percent of past crisis measures have been removed.²⁰

Worse still, the debacle of the Doha Round negotiations, which instilled a sense of helplessness into the WTO, reveals the fatal flaw of the traditional contract–bargain framework. The contract model is inherently insensitive to normative concerns, such as “development.” You are never safe when your neighbor’s house is burning. “(P)overty anywhere constitutes a danger to prosperity everywhere.”²¹ This collective risk is yet another confirmation of the undeniable fact that our existences are all connected. In fact, such a flash of enlightenment spurred the launch of the Doha Development Round shortly after the 9/11 terrorist attacks. The Doha Round’s ill fate should not be trivialized as yet another anecdote of a deal fallen apart, as would be perceived by the contract model. The Doha Ministerial Declaration emphasized that the Doha Round is a “development” round that should focus on eliminating the chronic agricultural protection practiced by developed countries.²² This normative mandate quickly evaporated, however, as main stakeholders in developed countries increasingly considered the Doha mandate as mere charity.²³

To most developed countries, the Doha Round is simply another “commercial” deal in which they should increase their access, or exports, to emerging markets.²⁴ Under this mindset, each negotiating country holds its

²⁰ Report on G20, supra note 19.


²² “International trade can play a major role in the promotion of economic development and the alleviation of poverty. We recognize the need for all our peoples to benefit from the increased opportunities and welfare gains that the multilateral trading system generates. The majority of WTO members are developing countries. We seek to place their needs and interests at the heart of the Work Programme adopted in this Declaration.” World Trade Organization, Ministerial Declaration of 14 November 2001, WT/MIN(01)/DEC/1, 41 ILM (2002), p. 746 (emphasis added).


own version of reciprocal balance. Also, negotiating countries often strategically formulate artificial concessions to be used as bargaining chips in a trade negotiation. Then, add the fact that low-hanging fruits had already been picked in past negotiations and therefore the Doha trade negotiations were left with some of the hardest nuts to crack. No wonder reciprocity did not work! In sum, the normative dilemma centers on the very notion of reciprocity on which a contractarian (rationalist) model is based.

B. Embracing a new (social) framework

These predicaments notwithstanding, the contract model has long been a virtual orthodoxy. Thus, there has hardly been any serious discussion on what the world trading system really is. Note that this inquiry exceeds a mere polemic. The basic image of the WTO among its observers tends to determine observers’ perceptions and even their judgment of the WTO and its various operations. This basic assumption also shapes a pathway to the future of the WTO. What we believe in the first place often works as a self-fulfilling prophecy.

Indeed, a number of legal and institutional changes borne of the evolution of the modern world trading system tend to justify a new (social) framework as those changes represent the emergence of organic solidarity within the WTO system. This is why it is imperative, for the purpose of this book, to fully appreciate that the conventional orthodoxy of the world trade contract is of a historical legacy. The prototype of the modern trading system, i.e., the GATT, was launched as a contract (agreement). Yet, the subsequent transformation from the GATT to the WTO has brought a number of structural changes that might not be fully fathomed by the original contract model.

26 Throughout the book, rationalism connotes any theoretical framework that postulates a state as a rational (preference-maximizing) actor, including neorealism, neoliberalism, and rational choice theories. Regarding a comprehensive discussion on rationalism and its limits, see Peter J. Katzenstein et al., "International Organization and the Study of World Politics," in Peter J. Katzenstein et al. (eds.), Exploration and Contestation in the Study of World Politics (1999), p. 30. For greater details, see Chapter 2.
Against this backdrop, this book argues that the contract model, despite its powerful heuristic, does not exhaust an account of why a WTO member behaves, and should behave, in a certain way. Non-material factors, such as ideas and norms, can also effectively guide state behaviors. From this standpoint, WTO members conduct most routine activities, ranging from various committee meetings to dispute settlement proceedings, not necessarily because their cost-benefit analyses instruct them to behave that way, but more because those activities are simply what they believe are the most appropriate as informed by the WTO's long-lasting customs and practices. The book aims to animate the latter social framework and offers a different narrative from the contract model, i.e., the world trade "community."

Note that I use the term “contract” throughout the book in its traditional, rationalist meaning. This definition, albeit narrow, adequately captures what most political scientists and international lawyers postulate over an international treaty or international organization, such as the WTO. Of course, I do acknowledge that in the domestic law of contracts a much broader notion of contract, such as a long-term contract or relational contract, is widely accepted. According to the approach taken by this book, the latter (broader) concept of contract has already entered into the realm of social framework in that it takes "relations" seriously in addition to, or despite, specific reciprocity represented by the former (narrow) concept. In fact, this is where the rational and social approach may converge.

The first step toward a new framework of the world trade community is to appreciate the importance of communication among its participants, be they WTO members or individual economic players. Here, WTO norms may offer these participants an operable lingua franca by which to perceive, recognize, and understand one another. A discourse based on trade norms enables, and thus empowers, trading nations and private economic actors alike to reflect upon others' behaviors, decide on their own courses of action, and thus interconnect with one another. Note that this discourse model is not a mere aspirational hypothesis.

29 See infra Section VII.
In fact, the evolution of the WTO dispute settlement system for the past six decades has dramatically increased the potential for trade discourse, both by expanding its scope and improving the level of clarity. Beyond merely arbitrating particular adversarial disputes between members, the WTO adjudicative discourse “communitizeswhat would have been bilateral resolutions and eventually builds a common (trade) law that guides the future behaviors of the entire WTO membership.

In the WTO community human reason is not limited to an instrumental rationality centering on strategic self-interest. On the contrary, the WTO’s “communicative rationality,” through the connectedness and interdependence of our collective existence, elucidates how each member engages other members via cognitive, norm-oriented interactions, such as inquiries, responses, arguments, persuasion, deliberation, and perspective-taking. Therefore, in the WTO community, trade norms do not always represent mere accounts of exogenously given sovereign wills. Instead, trade norms may also emerge endogenously through internal communication among participants of the world trading community. These participants, or interlocutors, include not only state actors, but also individual economic players, such as importers, distributors, bankers, insurers, retailers, wholesalers, warehouse operators, shippers, and consumers. In this context, the new model corresponds with the WTO’s ultimate purpose stipulated in the WTO Agreement, an “integrated, more viable, and durable multilateral trading system.”

Reflecting on the very nature of trade further substantiates the social approach to the WTO. Indubitably, trade is essentially a mutual enterprise. Without exporters, there would be no forwarders; without forwarders, there would be no shippers; without shippers, there would be no bankers to transact letters of credit; without bankers, there would be no importers; without importers, there would be no distributors; without distributors, there would be no warehouse owners; without warehouse owners, there would be no wholesalers; without wholesalers, there would be no retailers; without retailers, there would be no consumers of foreign products. Of course, this sequence can go in reverse, that is to say, without consumers of foreign products, there
would be no retailers; without retailers, there would be no wholesalers; and so on. Importantly, this mutuality is more of an ontological nature, rather than an instrumental one. Without mutuality, the very concept of trade would be inconceivable. In a trade enterprise, each economic player “act[s] upon” each other.\(^{34}\) This mutuality naturally results in shared grounds among participants of trade, comprised of a common language, common norms, and eventually a community. This book demonstrates that trade is, after all, a social phenomenon.

The social foundations of world trade that this book explores go beyond a mere academic endeavor. In fact, it has strong practical implications. For example, the contract model tends to naturalize protectionist trade politics. According to this conventional model, a trade policy is simply an externalized version of its domestic political status quo, that is to say, political economy equilibrium as a result of complicated bargains among interested parties. Such equilibrium, whatever it is, becomes the national interest. Yet if you are an American CEO whose production chain spans across the world, the conventional model may enervate your business. Then, you might think that this parochialism is indeed against free trade principles. Even though you are an American CEO, your country’s trade policy hurts you. In fact, any protectionist trade policy benefits no one but a very narrowly defined set of special interest groups, such as domestic producers and their lobbyists, which James Madison aptly described as “factions.”

As an American CEO, you may also be proud of your global supply chain in that it helps different people in different countries to make their ends meet. Suppose you could purchase yarn from India, have it woven and sewn in Bangladesh, have it dyed and printed in Mexico and, finally, have it shipped to New York. Here, if this shirt were to enter into the United States without any trade barriers, everyone involved in this global supply chain, including Indian yarn producers, Bangladeshi weavers and Mexican printers, wins. Each of them participates in this world trade community and profits from such participation in every niche. In this sense, you are a global CEO in its most genuine sense. If only domestic governments could see the world trading system through the same optic! If they did so, their titular national interests would converge with the global interest. Alas, in reality, powerful domestic industries have successfully lobbied domestic governments to prevent this ideal scenario from happening.

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In this regard, the social framework the book proposes deeply concerns the future of the world trading system. The Doha crisis has sounded a clarion call for reflection for a good deal of scholars and commentators. Many of them have proposed various changes in how WTO members should conduct trade negotiations. Critically, however, one should not expect to save the world trading system by simply altering the subject or the negotiation style. The old bargaining approach, such as “single undertaking,” if left unchecked, will continue to naturalize itself: its self-fulfilling prophecy will determine the WTO’s institutional pathway. What is truly necessary at this point is more than a scattered array of stop-gap proposals: there must be a structural change in the way in which we understand the nature of the WTO and its norms. In response to the urgent call for a fundamental rethinking of the WTO, this book proposes that we transform the way in which we perceive the world trading system. A different social reality will emerge from our new way of thinking about the world trading system.

Importantly, this book does not claim that the social framework always works. Under certain circumstances, brute material factors may simply obviate any illustrative room for ideational factors. Nor should the adoption of the social framework automatically translate into benign outcomes. While the lack of socialization might motivate a rational actor to locate loopholes in every norm to evade it, socialization among “people of the same trade” often leads to a conspiracy to monopolize the market, as Adam Smith complained a long time ago. Indeed, certain business crimes, such as embezzlement, presuppose preexisting relationships of trust. The Hobbesian problem, based on the state of nature, might be smaller in scale than a massive betrayal of trust, as seen in the Madoff Ponzi scheme. Likewise, conflicts, not cooperation, among WTO members might be also detected even under the social framework. Although the world trading system has matured enough to exhibit a complicated structure susceptible to sociological inquiries, concrete

35 See, e.g., Aaditya Mattoo and Arvind Subramanian, “A Crisis Calls for a ‘Crisis Round’,” Wall Street Journal Asia, March 25, 2009, at 14 (urging WTO members to expand the current Doha Round agenda, including such issues as government procurement and climate change); David Kleimann and Joe Guinan, “The Doha Round: An Obituary,” Global Governance Programme Policy Brief, European University Institute (June 2011) (proposing that the single undertaking principle be relaxed to salvage worthy agendas, such as trade facilitation).
37 Granovetter, supra note 30, at 491.