

# Economic Governance Institutions in a Global Political Economy: Implications for Developing Countries<sup>1</sup>

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Increased openness to trade and financial flows has spread around the world over the course of the past few decades, working together with accelerating technological change to create new worldwide economic dynamism in a variety of sectors. Openness has had positive political as well as economic consequences. Backward looking elites find it harder to use local political machines to shield their assets from more forward-looking competitors. Opaque, arbitrary and capricious governments pay a higher economic price than they did fifty years ago. Nonetheless, the new globalized political economy still leaves much to be desired (cf. Nayyar, 1999). Some of the failings of this new economy are exactly what one would expect from a market which starts from a foundation of vastly unequal endowments and then allows capital and goods to move freely while keeping workers largely trapped inside national boundaries. Growing inequality both within and between nations is not surprising, but it is still disturbing.<sup>2</sup> Another cause for concern is the volatility of the new global financial markets, whose devastating impact on developing economies has been demonstrated most dramatically in the 1997-98 Asian financial crisis. Perhaps most puzzling is the failure of the globalized economy to match the record

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<sup>2</sup> For data and discussion of rising levels of global inequality see Stewart, 1999; UNCTAD, 1997; Korzeniewicz and Moran, 1997.

of growth produced by the less open world economy of the Post World War II “golden age” of capitalism (roughly 1945-1973). Clearly openness alone is not enough. For market-based production and exchange to deliver generalized increases in well-being something more complicated than simply making national borders more economically permeable is required (cf. Rodrik, 1997). The global political economy is built on information flows and market exchanges, but it is also built on an intricate set of rules whose maintenance and enforcement require concrete organizations, both at the global and the national level. The governance institutions that formulate and enforce national and global rules are as important as the rules themselves. Unless rules are coupled with robust organizations, market actors cannot depend on predictable enforcement. Unless problems of inequity and volatility are addressed in institutional terms, they will grow worse. It is past time to start thinking about the global performance problems in institutional terms.<sup>3</sup> Institutional questions are particularly important today because the world is in the midst of a general process of institution building at the global level. The global governance institutions currently under construction may well eventually come to play a role at the global level analogous to the role that nation states gradually acquired within their national territories over the course of the last 400 years. It would be foolish, indeed irresponsible, not to take advantage of this moment of opportunity to give the most thorough consideration to how global governance institutions might best be structured.

Reviewing the full range of evidence and arguments on global governance institutions would be a massive undertaking. This paper has more modest goals. It uses a single organization – the World Trade Organization (WTO) as a prism for examining a very limited set of questions about institution building in the current global political economy. I will not try to assess the degree to which the rules and dispute settlement mechanisms associated with the WTO have contributed to increased openness or whether they have reduced or inadvertently contributed to biases in the law and practice international trade. Instead, I will look at the political tensions surrounding the actual and potential institutional role of the WTO. Considering first the WTO’s relation to prior modes of economic governance (i.e., the nation state) and then the politics surrounding the possibility that the WTO’s governance role might be expanded in the future in a way that would address inequality as well as openness. Three questions will serve as guideposts along the way.

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<sup>3</sup> A number of forms of “institutional analysis” have been developing in parallel for some time. The “new institutional economics” of Douglass North (1990) and Oliver Williamson (1985) has tried to counteract the institutional tone deafness of Walrasian economics. Economic sociology (e.g. Block, 1990, 1996; Fligstein, 1996; Granovetter, 1985; White, 1981) provides a different approach. The tradition of comparative historical analysis in sociology, economics and political science also provides a rich source of institutional insights (cf. Evans, 1995a, 1995b). The “neo-liberal institutional” (e.g., Keohane, 1984) and “social constructivist”(e.g. Ruggie, 1998) traditions in political science have tried to bring institutionalist perspectives to bear on international organizations. Despite this panoply of potential intellectual assets, institutional analysis of contemporary global economic governance institutions is still only beginning to develop. See Finnemore, 1996 or Barnett and Finnemore, 1999, for some promising examples.

1. Does the emergence of the WTO as a governance institution undermine the traditional governance role of nation states?
2. Could the WTO become a forum for addressing developing country concerns with growing First world/Third world disparities?
3. Could the WTO become a vehicle for attacking growing global inequality through the mechanism of “core labor standards?”

All three questions are political and organizational. All three discussions, but particularly the latter two, are designed to provoke debate and expand the current range of discussion regarding the future of the WTO as an organization. Before turning to these questions, however, a brief general consideration of the WTO as an organization is in order.

## The WTO as an Organization and Political Entity

Four features of the WTO as an organization need to be underlined. First, and most obvious its centrality to global economic governance. Second, the surprisingly democratic character of its formal decision-making procedures. Third, the tensions and contradictions between formal and informal realities, both in terms of its governance role and in terms of its decision-making procedures. Finally, and perhaps most important, the political vulnerability of the WTO (and global governance institutions more generally) needs to be underlined.

The formally democratic character of the WTO (in contrast to the IMF, for example) is, at first, surprising. Formally, each of the WTO's 134 member states has an equal vote. Since there is no equivalent to the Security Council, this makes the WTO in theory even more democratic (in the Westphalian sense) than the United Nations. Its governing “General Council” allows representatives of all major countries (with the notable exception of China and Russia) to participate in relative equality (at least formally) and the WTO ministerial conferences have been accompanied by extensive public debate.

If we turn from theory to practice, oligarchy comes closer than democracy to describing decision making at the WTO. The precedent, established in the GATT, that all decisions are made by consensus allows the U.S. and other major nations to set the agenda. Nonetheless, informal oligarchy remains in tension with formal democracy and this tension creates some interesting potential for change.

The contrast between formal and informal realities also applies to the WTO's power and centrality to the global trading system, but in a different way. As the organizational embodiment of the GATT, the WTO is the central forum for regulating international trade (see Krueger, 1998). As Ruggie (1994) has nicely

underlined, regulating international trade has come to include passing judgement on “trade-related” domestic policies, which can mean anything from environmental regulations to tax laws. This creates the impression that the power of the WTO might even extend inside domestic boundaries. Furthermore, unlike organizations like the ILO, the WTO has the ability to legitimate sanctions if its rulings are not followed. It is, therefore, a legitimate reflection of the general perception of the importance of WTO when a former member of the WTO secretariat (Blackhurst, 1997:533) writes of its “emerging role as the pre-eminent international economic organization.”

What is surprising is that if we look at the WTO in formal terms it does not appear to be a very powerful organization. Its formal, legal power is strictly limited. Its founders were very careful to avoid formal threats to sovereignty. The WTO was given no formal power to dictate national trade policies or even punish (directly) countries that refuse to abide by the obligations for openness to that have legally agreed to follow. Its only formal power is to legitimate the right of countries to engage in bilateral trade sanctions when their interests have been damaged by trade restrictions that violate the WTO agreements.

If the WTO is seen as powerful, it is because it is viewed as the embodiment of the interests of the world’s major economic powers. The WTO exists because powerful national players wanted to focus the politics of international trade disputes on an international organization whose decisions are likely to be considered legitimate, precisely because it is formally democratic and because those who make individual decisions are bureaucrats not beholden to any particular country. The WTO’s informal power then lies in the fact that it is the concrete representation of the informal consensus and solidarity that makes the international trading system work. Being viewed as the “agent” of powerful international interests is an enviable position in many respects. At the same time, however, the fact that the WTO is the most prominent formal reflection of an informal consensus makes it an obvious target for any nation or group that disagrees with the informal consensus. Those aggrieved by the effects international trade have no other place else to go at the global level. Being the most obvious concrete public organizations to hold accountable for the consequences of the otherwise acephalous international trading system creates an obvious potential for political discomfort. The potential discomfort is further increased by the ambivalence with which global governance institutions are viewed by national political leaders. In the current political climate, the idea of “free markets” is without doubt ideologically hegemonic, but infringements on sovereignty remain politically problematic. Consequently, institutions that must provide the institutional underpinnings for “free markets” benefit only partially from the ideological hegemony of free markets. As Steven Weber (1999) has pointed out, these organizations, as organizations, attract little political loyalty. The supposedly anachronistic institution of the nation state looks charismatic when compared to the average global governance institution. If global governance organizations are to fulfill their missions, they must somehow

counterbalance their own political vulnerability.

The WTO (like other global governance institutions) exists because the more sophisticated, internationalist currents in the leadership (including both politicians and corporate managers) of the U.S. and other developed countries realized that a global market requires a complex set of institutional underpinnings. As the “realist” theory of international relations (cf. Waltz, 1979) correctly underlined, a Westphalian world has strong elements of anarchy at the global level. Anarchy does not lend itself to stable market relationships, say nothing of long term investments. Reducing the level of anarchy in order to get the stability and predictability necessary for a global economy to operate is the whole point of global governance institutions. Stability and predictability require that the strong as well as the weak accept some level of constraint. Institutionalization is a tradeoff whereby the strong accept constraint in order to get the more reliable consent from weaker players (as well as from each other).

Such sophisticated internationalism is, however, far from universal among key political elites. One of the central reasons for the political vulnerability of global governance institutions is the peculiar ideological character of the nation that is the hegemonic economic, political and military power of this “new world order” – the United States (cf. Evans, 1997). There is a powerful current of elite ideology within the United States that is both profoundly distrustful of any kind of public governance institutions and deeply apprehensive of anything that might reduce the absolute sovereignty of the United States itself. This segment of the conservative political elite is completely supportive of free markets but has little appreciation of the institutional infrastructure necessary to make such markets work, particularly at the global level. Distrust of government in any form combined with deep-seated xenophobia turns any institution of global governance into the enemy. Hostility from traditional conservatives (principally in the United States) who will be hypersensitive to any WTO actions considered to infringe on U.S. sovereignty is almost inevitable. At the same time, an increasingly active civil society has begun to take a serious and vociferous interest in the politics of globalization. If passivity and defense of the status quo are the WTO’s only response, frustrated civic groups have every reason to try to get their national governments to withdraw support from the organization. A progressive-conservative alliance of political groups whose only point of agreement is that the WTO should be dismantled is far from fanciful, especially in the United States.

This political fragility is a cause for concern but also an impetus to organizational innovation. The quest for organizational survival should stimulate bolder and more creative thinking on the part of the WTO and its supporters about how its role might evolve in a way that would generate a broader base of political support. Thinking about relations with member states must come first, of course. Unfortunately for the WTO, the current politics of this relation often disregard the WTO’s formal inability to threaten sovereignty and start from the assumption of a zero-sum relation between national power and global governance. Questioning the existence of such a zero-sum

relation is a good starting point in any re-examination of the WTO's role.

## Global and National Economic Governance: Is there a zero sum relationship?

Despite the careful framing of the WTO's charter to make it clear that WTO could not infringe on the sovereignty of member nations, a firm belief has spread that, in the "post-WTO world," developing countries can no longer embark on ambitious, independent development strategies that go beyond openness. In some quarters, this belief is coupled with relief based on the expectation that the era of interventive "developmental state" is over and developing countries will now return to the traditional wisdom of the Anglo-Saxon model of the "nightwatchman state." In other quarters, there is despair, based on the belief that Third World States can no longer attempt aggressive national strategies aimed at counterbalancing the natural tendencies of global markets to exacerbate existing disparities between first and third worlds. Both reactions are almost certainly wrong.

The willingness of national political elites to attempt aggressive strategies aimed at fostering the local capital accumulation may well have declined over the course of the last 20 years. There is unquestionably more fear of enacting policies that might elicit a negative reaction from "the markets." Be that as it may, it is a dangerous mistake to extrapolate from these trends and conclude that the capacity for national economic governance has become irrelevant. While the nation state's role in economic governance is changing (cf. World Bank, 1997), reports of the demise of the nation state are without doubt premature. Despite evidence that the nation state's pre-eminent power and authority have been eroded in important ways (e.g., Cable, 1995; Strange, 1995), arguments for the persistent importance of the nation state (e.g., Evans, 1997; Fligstein, 1996; Wade, 1996) are equally cogent.

The additional extrapolation that the erosion of the economic power of the nation state can be attributed to the growth of the power of global governance institutions like the WTO is even harder to defend. Such extrapolation ignores the content of WTO rules, misses the difference between globalization and global governance, and misreads the history of economically effective Third World States. As Amsden (1999) points out, a close reading of the WTO rules shows that very few of the strategies utilized by "developmental states" in the 1970's and 1980's are ruled out. In the case of very poor countries, the latitude available for policies designed to promote local economic transformation is almost unlimited. To the extent that globalization has produced more timid economic policies, the shift cannot be explained in terms of the effects of the WTO as an institution.

A variety of influences are reshaping the nation state's role. Most of them are only tangentially related to the WTO. Most obviously, shrinking roles reflects a salutary recognition that states will be better off if they bring what they try to do in line with

what they are capable of doing. For states whose past performance has demonstrated governance capacity – primarily the so-called “developmental states” of East Asia<sup>4</sup> – more complicated political and ideological dynamics are at work, but again they are largely independent of the institutional role of the WTO.

Globalization (as distinct from global governance institutions) has undoubtedly put pressure on states to bring their economic policies into closer conformity with Anglo-Saxon orthodoxy. Liberalization of capital markets and explosive increase in the volume of international financial transactions has turned the wisdom of “the markets” into a self-fulfilling prophecy. If policies are considered too heterodox, they are likely to have deleterious effects simply because market opinion will be reflected in adverse capital flows and the disruption that they imply. Only the small minority of states that have maintained a modicum of control over their capital markets (e.g., China, Malaysia and Vietnam) have leeway in the face of the self-fulfilling prophecy.<sup>5</sup>

Closely related to the problem of the self-fulfilling prophecy are the limitations imposed by the increasing hegemony of Anglo-Saxon models of state behavior among the domestic economic elites of developing countries (including state bureaucrats).<sup>6</sup> Especially following the 1997-98 “gestalt shift,” in which East Asian developmental states were redefined in the public mind as homes of ineffectual “crony capitalism” (see Wade, 1998), belief in the efficacy of state economic action has been strongly undermined. The vulnerability of developmental states as demonstrated in the 1997-98 crisis opened political space for a new generation of American trained economists to bring traditional Anglo-Saxon views of the state’s role to the fore. Policy makers in other developing countries were encouraged by the international media to read the lesson of the Asian crisis, not as a cautionary tale about the dangers of opening capital markets without first developing the appropriate regulatory apparatus, but rather as evidence that state involvement in economic governance should be reduced.

This response is misguided. It encourages policy makers to forget about the governance assets accumulated over the years of institution building that went into the construction of the modern nation state when thinking about problems of global governance. The value of capable state apparatuses built around meritocratic recruitment, longterm career rewards and government-business relations which combine skepticism combined with communication and support with discipline is validated both by the longterm accomplishments of the East Asian developmental state (cf. Amsden, 1989; Wade, 1990; Akyuz, 1999) and by systematic comparative examination of the co-variation between bureaucratic performance and economic performance in a larger set of nations (see World Bank, 1997; Evans and Rauch,

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<sup>4</sup> There is, of course, a vast literature on these states which will not be reviewed here. See for example: Akyuz and Gore, 1999; Amsden, 1989; Chang, 1994; Evans, 1995a; Kim, 1987; Koh, 1995; Noble, 1988; Quah, 1982,1984, 1993; Wade, 1990; World Bank, 1993.

<sup>5</sup> It is interesting to note that these countries have also enjoyed exceptionally good records of economic development relative to other developing countries.

<sup>6</sup> On Korea, for example, see Amsden, 1994 or Chang, 1998.

1999; Rauch and Evans, forthcoming).

Acknowledgment of this basic lesson focuses attention on the central importance of capacity-building on the national level. For developmental states, recuperating the prior capacity of the state apparatus becomes the problem, not figuring out ways of diminishing it. For less fortunate states the problem remains how to put in practice the obvious lesson that reliable governance capacity at the national level is the keystone of effective markets and economic growth.

A capacity-building approach focuses attention on the importance of building a connection between the tasks of institution building at the national level and the challenge of constructing governance institutions at the global level, a connection that suggests a positive sum relation rather than a zero-sum relation. This approach is also consistent with the more sober and reflective arguments that have been made by analysts at the global level with regard to the requirements of an effective "new financial architecture." For example, Eichengreen (1998: 8) argues that "increasing regulators' capacity [at the national level] to supervise the financial sector" is one of the preconditions if the benefits of open capital markets are going to outweigh the risks as far as developing countries are concerned.

The conclusion is straightforward. It is a mistake to view the relationship between national and global governance institutions as a zero-sum struggle to divide some fixed amount of control. It makes more sense to look closely at complementarities. Unless capable institutional foundations can be built (or sustained) at the national level, the kind of international regime that is currently under construction may well be inviable. This straightforward conclusion leads in turn to the more difficult question of complementarity in the other direction. If governance capacity at the national level is essential in order for the WTO to achieve its goals, is it also possible that enhancing the capacity of the WTO might facilitate the ability of developing countries to achieve their perennial goal of trying to reduce the gap that separates them from advanced industrial countries?

## Might the WTO serve as a forum for developing countries to address growing First World/Third World disparities?

Is the WTO the instrument through which the advanced industrial countries in general and the United States in particular impose the interests of their business elites on the rest of the world? Or, is the WTO the neutral provider of collective rules and norms which benefit all trading nations? While the two views seem diametrically opposed, they are not.

All trading nations have an interest in the existence of some set of transparent rules which are considered legitimate by their trading partners. To this extent the WTO is a collective good. At the same time, no set of rules is neutral. Any actual set of

rules represents a selection from the theoretical universe of possible rules, and the selection process will benefit some countries (and groups within nations) more than others. Since the economic power of the United States and the advanced industrial countries cannot help but be reflected in the process of negotiating the rules, it would be odd if the resulting set of rules did not differentially reflect the interests of these nations. The fact that the initial rule making priorities of the WTO regime focused on intellectual property rights and trade in services, both issues which are primarily of interest to the United States and other advanced industrial countries, is consistent with this premise.

Accepting the fact that international trade rules cannot help but reflect particular interests raises two connected questions. The first question is whether the less powerful are worse off with an institutional form of global governance like the WTO than they would be without it. Some NGOs, like Public Citizen, argue for this position (see Wallach and Sforza, 1999), but they are probably wrong.

The “WTO-regime” (in the specific sense of a trade regime formulated and implemented under the organizational auspices of the WTO) must be compared not to some idealized global economic democracy but to the most likely alternative – a globalized economy shaped primarily by the bilateral efforts of the U.S. and other advanced industrial countries. When the contrast is put in these terms, it is reasonable to argue that implementation via an organization like the WTO creates more opportunity for Third World states to preserve space for distinctive economic policies. It is even more plausible to argue that having a body like the WTO as an institutional filter increases the ability of Third World states to defend themselves against arbitrary actions in which “free trade” and the self-interest of U.S. firms are conflated to the disadvantage of poorer countries. From the point of view of the Third World (including would-be developmental states), the kind of institutionalization embodied in the WTO is almost certainly preferable to a regime regulated primarily by the unmediated power of the hegemon on the basis of “real politik.”

In a purely “real politik” world where powerful countries simply bullied the weak into signing whatever agreements the strong considered to be in their interests, there would be no need for a WTO. The WTO may sometimes reinforce bilateral bullying, but it also constrains bullying. In the end, the WTO is more about establishing norms and building consensus than it is about the raw exercise of power. In any given bilateral dispute the WTO makes it more cumbersome rather than easier for the U.S. realize its preferences with regard to the global trade regime.

The second and more interesting question is whether institutionalization may create new, unintended opportunities for weaker players to modify the rules to better reflect their interests. Or, “Might the WTO serve as a forum in which developing country could push for rules that would better address growing First World/Third World disparities?” To answer this question we must return to the tension between formal democracy and informal oligarchy that characterizes the WTO as an organization. Obviously, it would put the United States and the advanced industrial countries in a

difficult political position if a large block of developing countries were to say, "It is not possible to achieve consensus, this issue must be taken to a vote." In short, the formal rules provide a basis for political threat.

Is it unthinkable that such a threat would prove effective in practice? The recent experience of trying to select a Director-General for the WTO would suggest not. A series of straw votes made it clear that the candidate favored by the developing countries had enough votes so that – even if the votes would never be officially counted – the developing countries had no reason to back down. The result was an embarrassing stand-off leading to the necessity of appointing an interim Director-General. In the end, a compromise was reached.<sup>7</sup> The fight made it clear that if developing countries decide collectively to fight for something it will not be easy for the US and the EU to simply ignore their position.

Is it likely that developing countries would succeed in extracting an equivalent compromise on a substantive issue – say, for example, reducing EU agriculture subsidies? Probably not, but the barriers to success have less to do with the WTO than they do with general obstacles to concerted developing country political action. First, as Amsden (1999) argues, the tendency of developing country political leaderships is toward overconformity with global rules rather than challenge. Second, any movement to challenge would have to transcend the serious collective action problems generated by the diversity of concrete interests which are subsumed under the general rubric of "developing countries."

What is important to underline here is that the primary obstacles to the effective political action on the part of the developing countries would be there whether or not the WTO existed. The effect of the WTO as an institution may well be positive. The WTO is a forum in which collective action is possible in principle. Indeed, the formally democratic structure of the WTO should be an incentive for developing countries to work toward identifying shared interests and overcoming the myriad obstacles to collective action. The more countries rely in practice on the WTO to resolve trade disputes and the more thoroughly institutionalized it becomes, the greater the incentive to try to utilize it as a mechanism for collective redress.

One might, of course, argue that if the developing countries ever actually succeeded in using the WTO to pursue collective interests, the more advanced countries would simply withdraw from the organization. This, however, seems unlikely. Having to abandon the WTO, on the other hand, would be a major shock to investor confidence in the predictability of global political economy, something the advanced industrial countries would certainly avoid at all costs. Once again, it would be a trade-off between the benefits of institutionalization and the costs of constraint.

The conclusion is ambiguous. The WTO provides a potentially quite useful forum in which developing countries might explore ways of reshaping the rules aimed at reducing First World/Third World disparities, but it is doubtful whether developing countries will ever take advantage of this potential. It may well be that "civil

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<sup>7</sup> Instead of one candidate serving a 4 year term, each will serve a 3 year term.

society” will be more aggressive in testing the political potential of the WTO, despite the fact that it is nation states who are enfranchised by the WTO charter.

## Might the WTO become a forum for advancing ‘core labor standards’?

The idea that the political leaders of developing countries might be able to make use of the WTO to advance shared interests is radical, but the idea that “civil society” might find in the WTO a vehicle for pursuing interests which are defined socially rather than nationally is even more so. As it stands, environmental groups are vehement in defining the WTO simply as “the enemy” to be exposed and destroyed if possible. For other groups in civil society, the WTO has only recently appeared on the political radar screen. Nevertheless, the possibility of expanding the WTO’s conception of what constitutes a legitimate “free market” beyond a narrow definition of property rights is likely to become part of future debates on the WTO’s role.

The idea that certain basic human rights transcend sovereignty and must be addressed at a global level is increasingly accepted. The possibility that core labor standards could also become part of the minimal set of global norms that cannot be abrogated by nation states (sovereignty notwithstanding) cannot be dismissed. As soon as the possibility of enforcing core labor standards is debated, attention cannot help but turn to the WTO.

The argument is simple. The global definition of “free markets” already includes a broad range of restrictions. ( For example, buying and selling parts of the human body, cocaine, or even the labor power of non-citizens are all highly restricted.) There is no logical reason why the absence of “core labor standards” – most crucially the right to organize – should not be considered a trade-related basis for unfair competition in the same way that the absence of intellectual property rights is considered to a trade-related violation of the rules of fair competition. Preventing workers from organizing reduces producers costs just as not requiring them to pay royalties reduces their costs. Both can be considered subsidies (cf. Wachtel, 1998). So far, the WTO has, of course, been careful to avoid acknowledging the logical possibility of becoming involved in broader definitions of legitimate competition in global markets, but the possibility continues to lurk in the background.

At the 1996 Ministerial meetings in Singapore the Scandinavian countries were, predictably, in favor of including core labor standards in the WTO’s mandate. More surprising, the U.S. tried (unsuccessfully) to include references to a commitment to “core labor standards” in the WTO’s mandate. The response was the epitome of cautious avoidance. The WTO’s first Ministerial Conference in 1996 came out with a declaration stating, “We renew our commitment to the observance of internationally recognized core labor standards . . . ” Of course, the Ministerial statement was careful to keep the commitment rhetorical, insisting that the labor

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standards were “not their department” and that the ILO should take care of such things. Still, the issue is not likely to go away. President Clinton pushed WTO participation in protecting basic labor standards once again at the Geneva meetings in 1998.

The politics surrounding the question of core labor standards and the WTO are intricate, but the basic pro and con positions are relatively simple. Those who are satisfied with the global economic performance under existing rules are steadfastly opposed because they don't want to do anything that would jeopardize what they see as the crucial and already difficult basic mission of increasing trade openness. In this view burdening the WTO with any additional task could sink the basic mission. Even TRIPS is sometimes seen as a mistake. A mission as contentious as core labor standards would definitely be too risky from this point of view.

For those who are disturbed by undeniable increases in global inequality the idea that the global governance should not be risked is not compelling. In this view, the mission to be accomplished is to increase global equity and well-being. This mission isn't being accomplished by existing governance. Global governance must therefore be extended in a direction that produces better results for equity and well-being. Core labor standards are the most obvious possibility for extension.

For developed country labor movements, which have seen their bargaining power eroded by globalization, using global governance institutions as a way of seeking redress makes good sense. The WTO is an obvious target for such an effort. Wachtel (1998) argues that “...the WTO could become a critical venue for advancing workers rights worldwide” and that therefore “[o]rganized labor and its friends would do well to make the WTO a priority issue.” Richard Freeman (1998), while skeptical of the likelihood that global labor standards are likely to be enforced to a degree that will result in widespread material benefits to Third World workers, still agrees with Wachtel that labor should push organizations like the WTO to put standards on their agenda. In Freeman's (1998:31) view, “...campaigns for labor standards just might be the wedge for bringing workers' concerns directly into discussions of how we run global trade and finance, and that could make a big difference.”

Whether labor has a chance of succeeding depends on how these debates filter through national politics, particularly the national politics of the United States. The “reformist” stance of the U.S. on core labor standard in the 1996 and 1998 Ministerial Conferences makes political sense (especially for a Democratic administration). From the point of view of the U.S. labor movement, which is a central constituency for the Democratic Party, institutionalizing core labor standards is a bedrock issue. For the corporate constituency whose interests the administration must balance against those of labor, the issue is much less salient. While U.S. TNCs are beneficiaries of the inability of labor in developing countries to organize effectively, the more sophisticated U.S. transnationals are aware that labor costs are a sufficiently small fraction of total costs so that the diffusion of “core labor standards” would be at most a minor detriment to their global profit rates. From the point of view of the U.S. administration then, supporting core labor standards is a political

winner. The same logic applies to the political leadership of the EU.

For developing country political elites, the calculus is, of course, quite different. Given the economic logic of globalization, anything that might threaten access to developed country markets is terrifying. Standards in any area (from health and safety to environment to labor) are viewed primarily in terms of this threat. At the same time, enhancing the power of local labor would threaten the political and economic privileges of the established elite in most developing countries. Since core labor standards are really about protecting the right to organize, and even minor and sporadic international pressure on behalf of the right to organize would be a boon to Third World labor movements, established political elites are likely to see "core labor standards" as a threat to both their local power and the economic strategies that they have adopted in response to globalization.

Developed country labor does not have a chance to win at the global level on core labor standards unless it can build effective alliances with developing country labor movements around the issue. A serious effort in this direction should find a receptive audience in developing countries. Third World workers would certainly value the opportunity to make their own choices as to whether they want to participate in a race to the bottom on wages with the aim of maintaining export market shares or whether they would prefer to try to stimulate local investments in increased productivity by pushing local wages higher. A better protected right to organize would increase their ability to make such a choice, and international legitimation of core standards would help protect the right to organize. Following this logic, Third World labor has a clear interest in allying with developed country labor and opposing the position of their own national elites.

None of this suggests a high probability of getting "core labor standards" onto the WTO agenda. Even with substantial support from developed country labor movements, it is hard to imagine Third World labor movements gaining sufficient political clout to change the position of their governments in international fora. Nonetheless, the value of the battle may be independent of the probability of success in getting new global rules in place.

In so far as a political battle over core labor standards is one that gives developed country labor new incentives to build alliances with their counterparts in developing countries, it is a fight that might be considered to have value independently of the outcome. Just as Richard Freeman (1998) sees the value of a fight over the core labor standards in terms of getting labor a place at the bargaining tables where global governance is shaped, those who lament the dearth of First World/Third World labor solidarity might see the primary value of a core labor standards campaign as a way to stimulate an increase in alliances across the First world/Third world divide. In this vision, the WTO plays a useful role by providing an institutional target, regardless of whether or not it ends up trying to enforce labor standards.<sup>8</sup>

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<sup>8</sup> The "labor side agreements" in NAFTA offer an interesting precedent here. Despite being extremely weak, they have still had the effect of helping to stimulate cross-border solidarity between the U.S. and Mexican labor movements (cf. Kay, 1999a and 1999b).

Developed country labor has obvious incentives to engage in a fight to get core labor standards onto the global governance agenda, by pressuring developed country governments and by building alliances with Third World labor movements. There are good reasons to argue that the positive side effects of the strategy would make it worthwhile even if it did not succeed. The arguments in favor of such a strategy do nothing, of course, to address fears of defenders of the current set of global rules who believe that, were the fight ever won, the resulting political burden would bring down the fragile structure of the WTO. Once again we are brought back to the dangers and opportunities inherent in the current period of institution building at the global level.

## The Opportunities and Dangers of Expanding Global Governance

Three premises provided the starting point for this discussion. First, we are in a period of institution building at the global level that constitutes a unique opportunity for exploring new solutions to global problems. Second, the biggest challenge facing global governance institutions is to find ways to reverse the trend toward growing inequality (within and between countries) that has characterized the current process of globalization. The simple pursuit of openness now seems very unlikely to meet this challenge; innovative ways of thinking about how to structure global markets are essential. Third, because global governance institutions are “under construction” politically as well as organizationally, they are vulnerable and the danger of their being undercut by opposition from a variety of different positions must be taken seriously. Building political alliances with a broader range of nation states as well as groups representing civil society is probably essential to ensuring the survival of governance organizations, but alliance building involves risk as well as promise.

Three questions provided the vehicle for exploring the implications of these premises with respect to the WTO. They were designed to provoke debate about the relation of the WTO to nation states and to the civil society actor which, despite the emergence of myriad new groups and agendas remains the single largest organized group in civil society – the labor movement. In both cases, opportunities for building new relationships that might help expand and strengthen governance in a way that would respond to the inequality problem were clear. In both cases, it was clear that extraordinary political will and skill would be required to take advantage of these opportunities.

The first question was the easiest to answer because it involved looking at the relation of new global institutions to the existing national governance institutions. The question was whether the growing role of global institutions should be seen as threatening the traditional role of national institutions or whether a synergistic positive-sum view of the relation is possible. My conclusion was that it is a mistake to view the WTO regime as having a zero-sum relation with the strength of

governance institutions at the national level. Effective operation of the WTO regime depends on encouraging and strengthening the growth of organizational capacity at the national level. Otherwise global markets will lack the fundamental layer of local regulatory capacity that provides the essential first line of protection against unacceptable volatility. Global governance institutions will be undercutting their own institutional infrastructure unless they work to strengthen national institutions, particularly in developing countries.

The second question asked whether developing countries might be able to use the WTO as an instrument for expanding global governance in a direction that would speak more directly to questions of inter-country inequality and “catching-up.” The answer was that neither the formal structure nor the informal international politics of the WTO exclude this possibility. Were the developing countries to transcend their internal divisions, construct a common agenda, and pursue it with real political determination, the formally democratic structure of the WTO would make it difficult to exclude their agenda. At the same time, the centrality of the WTO to the economic agenda of the developed countries would make it very costly for the developed countries to abandon the WTO altogether. Nonetheless, it is hard to imagine the crystallization of the political will and skill required to expand global governance in a direction that would specifically benefit the developing countries.

The third question – whether the WTO might become a forum for designing more broad-based definitions of what constitutes a legitimate market that would include “core labor standards” – is even harder to answer. The formal structure of decision-making within the WTO offers little leverage, but the fact that such expansion is favored by key political constituencies (i.e., the labor movement) within the advanced industrial countries increases the likelihood of the issue working its way into the informal agenda-setting process.

Answers to the third question depend on assessments of vulnerability. Expanding conceptions of global governance is one way of expanding the base of political allies. Convergence between the interests of global governance institutions and those of labor or other groups is less implausible than it might seem at present. In the end, institutions like the WTO are in the business of regulation. Labor has a clear interest in stronger global regulation, providing, of course, that labor rights are included along with property rights as part of the regulatory regime.

A global compromise in which a broad alliance in support of global governance institutions would be created by combining the protection of labor rights with support for property rights cannot be considered an outlandish possibility. Such a compromise would be quite “rational” from the point of view of the transnationally oriented elites which form the core political constituency for global governance. It would, after all, amount to the re-creation on an expanded scale of the “embedded liberalism” (cf. Ruggie, 1982) that underlay the post World War II “golden age” of capitalism.

All of this leads us to three possible future scenarios. The first, and always most likely, is a continuation of the status quo: global governance remains focused as it is;

worsening distribution and failure to extend improvements of well-being to a wider share of the world's population also continue as is; so does political vulnerability. A second, more pessimistic scenario cannot be excluded. Political vulnerability could develop into a coalition of conservatives defending sovereignty and progressives infuriated by failure to deal with questions of equity. The current project of global institution-building could collapse (just as national institution-building projects have collapsed in certain territories). Deterioration of global governance institutions would make building institutional capacity at the national level more difficult as well. Results in terms of global growth and overall welfare would be worse than the current status quo. The third, more optimistic scenario is, not surprisingly, least likely. New political alliances allow global governance institutions to address a broader range of issues facilitating improved distributional performance both within nations and between them.

Trying to formulating concrete strategies for avoiding the pessimistic scenario and making the optimistic scenario more feasible would go far beyond the mandate of this paper. The purpose here has been only to suggest that global governance institutions like the WTO are "works in progress" whose future evolution will depend on the combined political imagination and ingenuity of all those who are stakeholders in the global political economy. Expanding global governance in a way that might address the current failings of globalization is a political and institutional challenge. Thinking about the existing array of global organizations as sites of political opportunity rather than simply new sources of constraint is a way to begin addressing the challenge.

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