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A SURVEY ON DECISION MAKING IN THE WTO

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Özet

Dünya Ticaret Örgütünde Karar Alma Üzerine Bir Çalışma

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Bu tez, Dünya Ticaret Örgütü'nde karar alma sürecini incelenmeyi amaçlamıştır. Çalışma iki kısımdan oluşmaktadır. İlk kısımda, uluslararası kollektif hareket, karar alma kuralları ve usullerinin incelenmesi ile bir kuramsal çerçeve oluşturulmuştur. Bu çerçeve içinde ilk önce uluslararası kamu malları ile uluslararası örgütlerin kurulması arasındaki ilişki gösterilmiştir. Daha sonra, uluslararası örgütlerin bu malları sağlayabilmesi için kararlar alması gerektiği iddia edilmiştir. Bu kararların ise ya oybirliği, basit çoğunluk, nitelikli çoğunluk, ağırlıklı çoğunluk gibi karar alma kuralları ile ya da güç ve zorlama, pazarlık, problem çözme gibi karar alma usulleri ile alınabileceği gösterilmiştir. İkinci kısımda ise bu teorik çerçeve, Dünya Ticaret Örgütü'nün üzerinde uygulanmıştır. Barış ve istikrarın korunması, dünya ticaretini denetlenmesi, serbest ticaretin yaygınlaştırılması Dünya Ticaret Örgütü'nün kurulmasını sağlayan kamu malları olarak değerlendirilmiştir. Daha sonra, bu malları üretmek için örgütün karar alması gerektiği tekrar belirtilip karar alma kuralları, ilgili anlaşmaların muhteva analizi yöntemiyle incelenmiştir. Bunun sonucunda, konsensüs (oydaşma) kuralının diğer kuralları gölgelediği belirlenmiştir. Ayrıca karar alma usulleri de vaka analizi yöntemiyle incelenmiştir. Güç ve zorlama konusunda 'ticari değeri olan entellektüel mallar (TRIPs)', pazarlık konusunda 'kalkınmakta olan olan ülkelerin Cancun Toplatısında kurdukları koalisyonlar' ve problem çözme konusunda 'Dünya Ticaret Örgütü Uyuşmazlık Çözme Mekanizması' örnekleri incelenmiştir. Karar alma usullerinin incelenmesi sonucunda güç ilişkilerinin önemi belirtilmiştir.

Abstract

A Survey on Decision-Making in the WTO

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This thesis attempts to analyze the decision-making process in the World Trade Organization. In the first part, a theoretical framework is established which comprises the study of international collective action, decision-making rules and decision-making styles in international organizations. The thesis first illustrates the need for international public goods which leads to the establishment of international organizations. Then, it argues that international organizations should make decisions binding over member countries in order to ensure an optimal level of production of international public goods. This argument led to the study of decision-making rules which require unanimity, simple majority, qualified majority and weighted majority. However, studying these decision-making rules does not suffice for the comprehension of decision-making process in international organizations. In addition to the rules, the mode of relations between states should also be taken into consideration. Power and coercion, bargaining, and problem solving are, therefore, introduced as the three categories of decision-making styles. In the second part, this framework is applied to the decision-making process in the World Trade Organization. Promotion of peace and stability, surveillance of world trade, and trade liberalization are found to be the reasons of international collective action which led to the establishment of the WTO. Besides, the analysis of decision-making rules illustrated that consensus-based decision-making curtails other decision-making rules. Finally, studying the decision-making styles through the cases of 'TRIPs', 'Bargaining Coalitions in Cancun Ministerial Meeting' and 'the Banana Dispute' revealed the significance of power relations between and among the WTO members.

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Abbreviations

ACP	Africa, Caribbean and Pacific
DSB	Dispute Settlement Body
DSM	Dispute Settlement Mechanism
DSU	Understanding on Rules and Procedures Governing Settlement of Disputes
EC	European Communities
EU	European Union
G22	Group of 22
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
IMF	International Monetary Fund
LDC	Less Developed Countries
LMG	Like Minded Group
NTB	Non-tariff Trade Barriers
OMA	Orderly Marketing Agreements
PKK	Kurdistan Workers' Party
SVE	Small and Vulnerable Economies
TPRB	Trade Policy Review Body
TPRM	Trade Policy Review Mechanism
TRIPs	Trade Related Aspects of Intellectual Property Rights
UN	United Nations
US	United States of America
VERs	Voluntary Export Restrictions
VIEs	Voluntary Import Expansion Agreements
VRAs	Voluntary Restraint Agreements
WB	World Bank for Reconstruction and Development
WTO	World Trade Organisation
WWII	World War II

Chapter 1

Introduction

The WTO became a center of interest for many journalists and scholars all over the world after demonstrations of groups against globalization during the organization's Ministerial Meetings. The WTO is especially criticized for being an 'organized hypocrisy' which only benefits the developed countries and for being a medium for developed countries to exploit the developing world. However, the supporters of the organization claimed that the WTO creates an international trade system, in which all members gain certain benefits. This thesis offers a contribution to understanding this dispute over the functions and structure of the WTO with special reference to its decision-making process. In the first part a theoretical framework is established which comprises the study of international collective action, decision-making rules and decision-making styles in international organizations. In the second part, this framework is applied to the World Trade Organization.

We shall see in Chapter One that, there is a strong relation between the provision of public goods and establishment of international organizations. Production of public goods requires 'the state' at the national level and the 'international organizations' at the international level. Investing in public goods has never been attractive to the private sector since achieving profit over a price exceeding the cost is the ultimate goal of the private sector. However, this seems to be unlikely to happen because determining a market price for public goods is quite impossible. Thus, the public sector takes over the responsibility of accomplishing this service for the public. Moreover, the public sector is liable to finding resources for these services. 'The state', therefore emerges as a mechanism that obliges its citizens to pay for the production of public goods. Similarly, the provision of international public goods such as prevalence of peace and stability, creation of knowledge and research, preservation of the ozone-shield and oceans, and creation of international law cannot be ensured through unilateral contributions of individual states. International organizations, however, can function as mechanisms which establish the basis of cooperation. The essential instruments for the provision of international public goods such as communication between nations,

the rules of cooperation, the execution of a collective action and monitoring the conformity of the states with the decisions require international organizations. Therefore, provision of international public goods largely depends on international organizations.

Having explained the need for international organizations, their working mechanism is elaborated in Chapter Two and Chapter Three. International organizations have to make decisions binding over their members in order to provide the goods and services that they are supposed to produce. The decisions necessary for effective functioning of an international organization can be taken through a formal process of decision-making which can require consensus, unanimity, simple majority, qualified majority and weighted majority of the members. In Chapter Two, these decision-making rules are first defined and then exemplified with reference to the decision-making process of different international organizations. Nevertheless, studying these decision-making rules does not suffice for the comprehension of decision-making process in international organizations. In addition to the decision-making rules, the styles of decision-making, which consider the mode of relation between states, should be studied. Chapter Three, therefore, focuses on 'power and coercion', 'bargaining' and 'problem solving' as the three styles of decision-making in international organizations. In addition to the relevant literature in political science, definition of these styles are also given with reference to game theory. The three styles are described as follows: power and coercion as a zero-sum game, bargaining as the battle of the sexes, and problem solving as a coordination game. Finally, these categories are illustrated with reference to the actual cases in international organizations: Structural elements of great power diplomacy within the League of Nations and the United Nations are mentioned to illustrate 'power and coercion' style of decisions; the recent developments in Cyprus are discussed as an example of 'bargaining' under the auspices of the United Nations; and common policies of the European Union are examined as mechanisms of 'problem solving'.

In the second part (Chapter Four), this framework is applied to the decision-making process in the World Trade Organization. First, promotion of peace and stability, surveillance of world trade, and trade liberalization are found to be the reasons of international collective action which led to the establishment of the WTO. Second, the rules and procedures in the WTO decision-making process is analyzed. The requirements of consensus, unanimity, two-thirds and three quarters majority and simple majority necessary for different decisions in the WTO are examined through a content analysis of the relevant agreements. As a result, the analysis of decision-making rules illustrated that consensus-based decision-making curtails other decision-making rules. Finally, the styles of decision-making in the WTO are studied. The significance of coercion, and power politics in the WTO is pointed out as the Trade Related Intellectual Properties (TRIPs) is analyzed as a case study. Subsequently,

bargaining in the WTO is elaborated through the case study of 'bargaining coalitions of developing countries in the Cancun Ministerial Meeting'. Problem solving in the WTO is finally examined with reference to the WTO Dispute Settlement Mechanism and to the case of the EU Banana Regime.

Consequently, this thesis attempts to establish a theoretical framework, which can be utilized to analyze the decision-making structure of an international organization, and taking one step further it focuses on the WTO in order to illustrate how this theoretical framework can be adopted to an actual case.



Chapter 2

Why Cooperate: Theory of Public Goods

In this chapter, the main focus will be on the theory of public goods and its relation to international organizations. The fundamental argument here is that, producing public goods requires 'the state' at the national level and international organizations at the international level.

First, there will be a brief introduction including a definition of the general concept of public goods with reference to its two significant features: non-excludability and non-rivalry. In addition, the definition of free-riding and other related problems of collective action will be entailed.

Second, public goods at the international level, which are called "global public goods", will be analyzed. Due to the increasingly widespread globalization process, the essentiality for the cooperation of nation states has tremendously escalated. In today's world, it has become eminent for the nations come together and act for the benefit of all.

Third, the relation between global public goods and international organizations will be studied.

2.1 Theory of Public Goods

2.1.1 Definition

It might be helpful to start by distinguishing public goods from private goods in order to clarify their meanings. Consider private goods such as food, clothes, shoes etc. These goods merely serve the purposes or requirements of those who they are owned by. Therefore, two people cannot wear the same pair of shoes at the same time. On the other hand, public goods benefits are not restricted to single individuals but serve larger groups, even masses. National security, for example, is a public good

that contributes to all members of the society. In other words, every single individual is able to enjoy peace and security together with the rest of the society. We can therefore define public goods as ones

...whose benefits are indivisibly spread among the entire community whether or not individuals desire to purchase the public good (Samuelson 1992, p.311).

2.1.2 Properties of Public Goods

Non-excludability

No single party or individual can be exempted from making use of a public good, once a public good is provided. For example, let us think of the service provided by a traffic light. Clearly, all people passing across the street would enjoy the safety and confidence provided by the luminant street and would be protected from impending accidents. If traffic lights were private property, then the pedestrians would be urged to walk further in a distant direction and find another route to pass across the street so as not to invade others' privacy. Therefore, exclusiveness is not only inefficient but also impossible and public goods are open to the use of all without discrimination or exclusion (Samuelson 1954, p. 387).

Non-rivalry

There is no rivalry for the consumption of a public good because consumption by one person does not have any effect on the amount of good available to others (Muller 1989, p. 11). For instance, there is no rivalry among people living in a city about the use of traffic lights. Some people's use of lights would not decrease the number of traffic lights in a city. Moreover, the number of people making use of traffic lights does not matter once we have traffic lights on the streets, that is, when more users consume the public good, the cost for the society does not increase (Samuelson 1954, p. 387).

2.1.3 Provision of Public Goods

Free Riders Problem

One major induction to free riding is non-excludability of public goods. In fact, rational individuals would preclude the idea of contributing to the cost of a public good knowing that it is also possible for non-contributors to benefit from the same good. In other words, a self interested person would not mind others paying for a public good and acquiring free benefits from it.

Sandler (1992, p. 17) gives the example of fund raising campaigns to support Public Broadcasting Stations. Each year, only a small proportion of the viewers help their finance. On the other hand, those individuals who do not contribute anything are free riders because they view programs and rely on the contributions of others.

However, the problem emerges when everyone behaves rationally and refrains from making any contribution to the creation of the public good. As a result, impediment of public good supply will occur, depriving all people from related benefits.

Undersupply of Public Goods

Undersupply of Public Goods can be associated with three distinct reasons. First, due to the mere fact that some people accommodate themselves to free-riding and relinquish paying for public service they obtain, public goods supply become an unfeasible investment since the return would not pay off the invested money. Eventually, the amount of public good supplied will end up being less than the demand in the society because some people tend to free ride while others do pay the cost (Morrisey et al. 2002, p. 42).

Second, not everyone values a public good to the same extent. Some value more than others, although the benefits are equal to all (Morrisey et al. 2002, pp. 42-45). In the most common example of national security, all people in a society equally benefit from national security. However, while conservatives value national security highly, leftists would consider military expenditures unnecessary. Therefore, the latter would not be willing to contribute to such costs as much as the first group and free-ride if possible.

Third, the complexity of the decision on the quantity to be produced or the assessment of the demand for a public good in a society generates undersupply of public goods. Aleskerov (1999, p. 22) gives the example of Stealth B-2 air bombers. US Air Forces wanted to buy 132 of them. However, when their contribution to national security is compared with their cost to the economy (2.2 billion each), US Congress decided only to buy 20 which is less than demanded by the Air Forces. This example demonstrates that the decision on the quantity of public goods to be supplied is consequence of a complex process which involves different factors.

2.1.4 Public Goods and the State

Investing in public goods supply has never been attractive to the private sector. Achieving profit over a price higher than the cost is the ultimate goal of the private sector. However, this seems to be unlikely to happen because determining a market price for public goods is quite impossible. Evidently, the private sector would never be enthusiastic to invest in a business project which some people may utilize

without paying for. As a consequence, the public sector takes over the responsibility of accomplishing this service for the public.

Moreover, the public sector is liable to finding financial resources for these services. The question is a matter of defining the terms to determine the people who are going to pay for the production of public goods. Section 1.1.3 illustrates that voluntary contributions would not suffice for the provision of public goods and undersupply of public goods would always be an issue.

Olson (1965, pp. 1-2) argues that a central authority is required to coerce people to contribute to the supply of public goods. In his mind, the self-interested individuals who act upon their own interest do not often comply with group interest. In a group, there should be a mechanism to urge the individual members to serve the interest of the whole group.

Similarly, the state at the national level is a mechanism that compels individuals to pay for the efficient allocation and distribution of public goods. That is why the state has the right to make binding decisions over a defined territory and impose sanctions in case of non-compliance (Lawson 1993, p.35). It is the monopoly of coercion that ensures the production of public goods by the state. Thus, provision of the public goods is one of basic reasons for the existence of 'the state'.

2.2 Global Public Goods

2.2.1 Globalization and the need for collective goods

Globalization has become one of the most controversial issues in social sciences and there is no single definition of this concept which has received general acceptance of social scientists. However, a classical definition of globalization is that

...it is the closer integration of the countries and peoples of the world which has been brought about by the enormous reduction of costs of transportation and communication, and the breaking down of artificial barriers to the flows of goods, services, capital, knowledge and people across borders (Stiglitz 2003, p.9).

Looking at today's world, one can easily observe that the level of connectedness and interdependency is very remarkable. No single crisis can remain regional because eventually the consequences will become global at different dimensions. Therefore, the need for international cooperation becomes inevitable. For instance, lives of many children in underdeveloped parts of the world rely on medicine available in some other parts of the world or a great invention is to be developed on the knowledge created somewhere else. The SARS virus in Far Eastern countries may also be considered as

another example. Prevention of such a disease would not only benefit those infected countries but also the ones without any evidence of infection. Similarly, efforts to cease international terrorism require international consulatory action to ensure security for all nations. Similar actions are crucially essential to ban the consumption of gases that enlarge the gap in the ozone layer. And since many nations will reap the benefits of these cooperative actions, they would encourage others to make contribution (Kaul et al. 2001, p. 9).

Owing to globalization, nation states can no longer act on their own. Globalization has created a greater need for the collective action of the states to supply desired benefits. In the next section, global public goods as an intended consequence of this (international) collective action will be defined.

2.2.2 Definition of Global Public Goods

The significance of public goods is not confined to the notion of being national, but also it extends to an international level. While the availability of the benefits of some public goods may be limited to a certain region or a country, the benefits of other public goods may be widespread among different nations. In other words, global public goods are those whose benefits are global or international (Kaul et al., 2001, pp. 3-4).

2.2.3 Types of Global Public Goods

Morrisey et al. (2002, pp.36-39) identify three types of benefits that lead to public goods: risk reduction, enhancing capacity, direct provision of utility.

First is that many public goods come into existence by creating a benefit that reduces or eliminates risk. The elimination of global risk such as a contagious disease benefits all countries, and therefore it would be regarded as a global public good. Moreover, the reduction of risk is also a public good if its benefit is pervasive throughout the globe. For example, reducing greenhouse emissions would induce a reduction in global warming. Although the reduction of risk does not necessarily imply the elimination of it, still it would ensure a feeling of safety among the people involved.

Another benefit related to the provision of global public goods is the enhanced capacity to produce goods. Knowledge and research are two general examples. Accumulated knowledge and conducted studies are principally available to the use of public. Therefore, a researcher does not need to invest his/her time and energy on a project or experiment which has already been conducted, thus serving in the advancement of science and technology and in turn rendering the new information available to the benefit of the public by enhancing the capacity.

The final benefit is direct provision of utility which is also considered to be a global public good. Reducing environmental degradation of a common property resource (e.g. ocean or forest), conservation and preserving bio-diversity or wildlife produce a public good from which everyone can derive a utility.

Another classification of global public goods can be attributed to the studies of Kaul et al., (1999, p. 5). In their study, global public goods are categorized into three groups: natural global goods, human-made global goods, and policy outcome global goods. Ozone-shield, the atmosphere, rain forests, international waters are examples of the first group of global public goods. Secondly, scientific knowledge, international rules and standards, universal norms and principles can be mentioned among the human made global goods. Finally, outcomes of policies such as financial stability, peace and security, environmental protection can be considered as global public goods.

2.2.4 Provision of Global Public Goods

International cooperation is in principle voluntary. Accepting the rules and standards of an international organization depends on the consent of a nation-state. Nation-states do not have any obligation to implement and conform to the rules and standards of international organizations or to be part of any cooperative action. However, international collective action is a requirement for the provision of global public goods. At this point a question arises: How can a mechanism be established in order to indulge the states into producing global public goods? In this part, certain drafts will be analyzed in order to provide possible responses to this query.

Coercion

First of all, global public goods can be provided when the members are coerced to contribute to the cost. Coercion, however, does not mean physical use of power. Nation states may simply give an organization the right to coerce them. As mentioned before, citizens of a state are under obligation to pay taxes for the production of public goods and some other goods and services. Besides, the state has the right of coercion to get the citizens to pay it. Similarly, individual states may agree on the authority of a body to coerce them to pay their share of the cost (Russet & Sullivan 1971, pp. 850-851).

Independent Contributions

International cooperation may also take place through 'independent contributions'. In this case, the amount of contribution is determined by individual nation states.

Military alliances are mostly of this kind. Once an alliance is created, allied states mostly decide independently the quantity of military force to be provided. The U.S. government, for instance decided to rage a war supposedly against ‘terrorism’ in Iraq. Then, the government even sought a multilateral consensus that embodies the UN’s consent. Although it failed to pass a UN resolution legitimizing such a war, it succeeded in obtaining the support of some countries. Those countries like Britain and Spain, which supported the U.S, have contributed to the operations in Iraq on voluntary basis. Moreover, they themselves determined the scope of military contribution. Therefore, this example illustrates that the quantity and quality of contribution may rely on the independent assessments of countries.

Olson (1965, pp. 35-36) draws our attention towards shortages of supporting international organization through independent contributions. First, small countries and big countries differ in their ability to support international organizations. Therefore, the amount of contribution by a country naturally depends on each country’s economic power. In other words, while a big proportion of the support necessary for the maintenance of international organization is due to a super power or due to a small number of great powers, smaller countries tend to contribute in smaller quantities.

However, although the contributions of smaller countries do not have a huge impact upon the emergence of collective action, they constitute a significant amount of burden on their shoulders. Furthermore, the amount of public good created by the contributions of some great powers (or a super power) mostly suffices to meet the demand of smaller countries. As a result, these smaller countries taking the contributions of bigger countries into account tend to free-ride and do not provide anything at all¹. Below example may help us to clarify this point.

In Figure 2.1 (Olson 1971, p. 869), the vertical axis measures benefits and costs in a common metric such as dollars. The horizontal axis of the figure measures the quantity of whatever collective good the international cooperation provides. The C curve denotes the total costs of each level of provision of the collective good. The V_g curve gives the aggregate value to all active participants of each level of provision of the collective good while the curves marked V_i give the value of each level to an individual state. V_i^L denotes the value of collective good to the state that values it more highly, and V_i^S gives the same information for the state that puts the lower absolute value on the collective good. And it is assumed that l and s were democracies composed of people with identical wants and incomes but l had exactly twice the population of s so that V_i^L was exactly two-thirds as great, and V_i^S one-third as great, as V_g .

In this example of Olson (1971, p. 869), what would each state do if two member states independently determined the level of contribution? State L would provide X

¹Such groups are called as privileged groups by Olson (1965, p. 63)

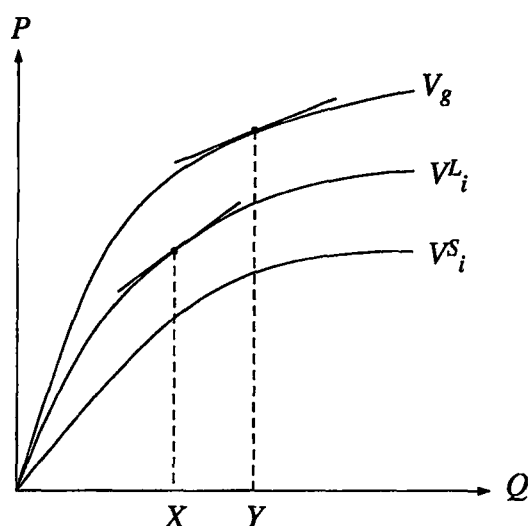


Figure 2.1: Independent Contributions

amount and state S would provide none at all. It is because state L would only maximize its benefits over costs at point X . Nevertheless, X amount of good would be available for state S since it is a public good. Besides that, the cost of providing more goods would be more than its benefits for state s because point X is above the curve V_i^S . Therefore, state S would prefer not to provide anything. As a result, this example demonstrates that support of international organizations through independent contributions would lead to an undersupply of public goods less than the optimum level.

Marginal Cost Sharing

Another system to ensure optimal level of public goods is marginal cost sharing. In this system, members share the marginal cost of the good in the same proportion as they share the marginal benefit for every extra unit of production. (Olson 1971, p. 871) For instance, in Figure 1, state L would provide two-third of the cost and state S would provide one-third of the cost because it was assumed that V_i^L was exactly two-thirds as great, and V_i^S one-third as great, as V_g .

Moreover, when all members pay their respective share of the marginal cost equal to the share of marginal benefit, they will also agree on the amount to be produced. This system, however, is only practical when the number of members is limited.

Olson (1971, p.872) argues two kinds of problem concerning marginal cost sharing. First, cost assessments often fail to share the marginal costs in the same proportion as the marginal benefits. Moreover, assessments cannot easily be updated and they may therefore be arbitrary. Second, international organizations take decisions whether

to undertake an activity or not. However, they mostly fail to pass a resolution to determine the level of contribution by each particular member. As mentioned before, a small state as a rational actor may find its contribution having very little effect on the viability of the action and may decide not to contribute.

2.3 Global Public Goods and International Organizations

International organizations are playing a crucial role at the international level which is similar to the role of nation-state at the national level concerning the provision of public goods. As demonstrated above, neither voluntary action nor independent contributions of the states suffice for the provision of public goods. Therefore, a mechanism should be formed to force people or states to come together, act in harmony, and even sacrifice for the benefit of all.

International organizations may function as a mechanism which establishes the basis of cooperation. The essential instruments such as communication between nations, the rules of cooperation, the execution of a collective action, monitoring the conformity of the states with the decisions all require an international structure of politics.

Since the benefits of some public goods are global, nation-states should work together first to create and then to share the benefits of global public goods. And the instruments necessary for international cooperation can be obtained through international organizations. Therefore, provision of global public goods depends largely on international organizations.

2.4 Conclusion

Being both a result and an outcome of social life, public goods constitute an imperative element of society. Since the production of these goods is not a feasible investment for private sector, intervention of the state so as to produce and distribute public goods becomes necessary.

At first, the theory of public goods was confined to the frame of nation-state. Eventually studies on the international dimension of the subject have become larger in scale. These studies associated the provision of public goods with international cooperation. Furthermore, the desire to supply international public goods is basically related to the formation of international organizations. In other words, similar to public goods establishing the basis of legitimacy for the existence of state, global public goods generate the motivation behind international cooperation and international

organizations.

At this point, another point to be enlightened is about the provision of public goods by international organizations. For an optimal level production of public goods, international organizations should gain the power to make decisions binding over member countries. Next chapter will, therefore, focus on the theory of decision-making in international organizations in order to maintain the provision of global public goods.



Chapter 3

Decision-making in International Organizations: Theory and Rules

3.1 Introduction

The significance of collective action and the need for the nations to come together and establish international organizations were demonstrated in the previous chapter. Furthermore, effectual functioning of such organizations and actions requires a structure to take decisions binding over member or participant countries.

The focus of this chapter, therefore, will be on the mechanics of decision-making in international organizations. After defining decision as a general concept, process of decision-making and rational decision-making will be reviewed. However, decision-making rules and their applications in international organizations will be the center of interest in this chapter.

3.2 Theory of Decision-Making

In this part, a wider picture of decision theory, through a short review of relevant literature, will be drawn before an analysis of decision-making rules in international organizations. Together with the concept of decision, rationality and process of a decision appears to be other significant terms to be elaborated. Therefore, it is necessary to clarify these concepts as a starting point.

3.2.1 Definition of Decision

Defining decision and decision-making process has been an attractive area of interest both for political scientists and economists. However, a general definition might be more useful. For this purpose, let us assume that there exists a group, which has come together to achieve a common goal. The members of the group probably propose many

alternative projects to accomplish their common goal. So the members should first agree upon one of these projects. This process of making a choice among various alternatives is called as decision-making. Similarly, Synder (1962, p.90) argues that

...decision-making is a process which results in the selection -from a socially defined, limited number of problematical, alternative projects- of one project intended to bring about the particular future state of affairs envisaged by the decision makers.

Therefore, decision-making leads to a course of action which brings about the desired outcome. As a result, a common purpose and a project as a strategy to achieve it are the two main elements of a decision.

Likewise, members constituting international organizations have some kind of a common purpose to be accomplished through a strategy which is a result of decision-making process within that organization. Therefore, success of organizations depends on the degree of their ability to make decisions and subsequently, to execute these decisions.

Moreover, ensuring the compliance of members in execution of decisions also bears a vital significance since any decision would make members conduct activities they never did before and deter them from activities they were used to before the emergence of a decision. In other words, members are to give up some benefits or freedom for the sake of making a decision and gaining something else in return. Therefore, one may also argue that a decision is made when something is given up in favor of something else. (Strickland et al., 1968, p.28)

Finally, decision may be defined as a process leading to a choice among different alternatives, which generate the desired outcome, and as a factor assuring a change in the behavior of members prior to a decision.

3.2.2 Process of Decision-Making

The process between the emergence of the need to make a decision and the eventual making of that decision can be divided into four stages. Initially, decision-maker gathers information. Next, this information is analyzed and evaluated by him/her. Then, he/she reaches a decision about what is to be done. Finally, the decision is put into practice as shown in Figure 3.1 (Nicholson 1992, p. 54).

For example, the decision to go to a place for holiday may be applied to this schema. People collect information through internet, newspapers on the places which are available. Then, they evaluate this information by asking others who have been there before. They check the prices and the facilities offered by the place. Subsequently, they decide in the light of the information they have. Finally, they go to the chosen place.

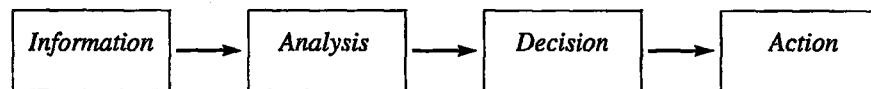


Figure 3.1: Process of Decision-Making

Foreign policy decision-making may be another example to illustrate decision-making process. At the first stage, decision-makers collect information not only through internet, television and newspapers but also through their diplomatic and intelligence services. Secondly, decision makers attempt to analyze the importance of the situation for their country and plan strategies to be applied in different future developments with respect to existing conditions. Then, they make a choice among different alternatives which are not as many as it seems to be since many alternatives are beyond the capacity of that country. Finally, decision makers of foreign policy implement their decision very cautiously by monitoring the reactions of other nations and modify their decisions immediately when they think that it is necessary (Reynolds 1974, p. 251; see also in Sonmezoglu 1995, pp. 172-179).

3.2.3 Rational Decision-Making

Understanding the concepts of decision and preference and the relation between the two is a key to another concept that is rational decision-making. Preferences show the degree of our desire to do certain things. It is simply an indication of what we would like to do and what we would not like to do. If we compare the alternatives that we like with those that we do not like, and put them in an order starting from the most desired one to the least desired one, then we are going to have a list of our preferences in order of importance. Having this list of preferences, one's decision is rational when decision taken is a preference that has the highest ranking above all other preferences. In other words, rational decision-making occurs when decision maker's choice of action is the most preferred one (Strickland et al., 1968, pp. 32-33).

More specifically, assume that there are alternatives which are mutually exclusive and they are denoted by small letters $x, y, z..$ and decision maker A has to make a choice. Moreover, he or she can only make a choice out of all possible alternatives within subset S . On such an occasion, A analyzes all pairs of alternatives and takes one of the following three decisions:

- x is preferred to y ($x \succ y$),
- x is indifferent to y ($x \sim y$),
- y is preferred to x ($y \succ x$).

Furthermore, the decisions made for different pairs are assumed to be consistent with each other. That is,

- $x \succsim y$ and $y \succsim z$ implies $x \succsim z$
- $x \sim y$ and $y \sim z$ implies $x \sim z$

As a result, if there is an alternative in S , which is preferred to all others, A will decide to select that one to be rational. This action is referred to as rational decision-making considering the relation between preference and decision as the main criterion (Arrow 1963, pp. 11-17).

3.3 Decision-Making in International Organizations: Decision Rules

Studies concerning the conduct of diplomacy not only emphasized the role of decision rules but also the influence of power relations, coercion and bargaining. In this study, the theories of decision rules are studied with respect to their implementations in international organizations whereas other mechanisms are to be elaborated in the next chapter.

Significance of decision rules depends on the place of voting in the administrative structure of an organization. In other words, they gain importance when formal voting plays a significant role in the decision-making process.

In the early days of democracy, unanimity was the only decision rule available which required the consent of all parties involved. At the national level, unanimity vote could only live during the period of representative democracies. However, after the emergence of representative democracies, unanimity was replaced by majoritarian decision rules in which the consent of many would suffice rather than all.

Similar to national democracies, at first, unanimity was the only conventional method to make decisions in the conduct of international relations. Then, majority rule at the national level was also adapted to international relations and organizations. Today, different types of majority rules such as weighted voting and qualified majority voting are widespread among the decision-making structure of international organizations.

3.3.1 Unanimity and Principle of Sovereign Equality

The idea that nations acting in harmony should make decisions by unanimity has dominated the conduct of international relations for a long time. Traditional international law had an egalitarian perception of nation states, which required that every state

had an equal voice in international negotiations and proceedings of agreements, i.e. the doctrine of sovereign equality, and no state could be bound without its consent, i.e. the principle of unanimity (Koo 1947, p. 9).

The doctrine of sovereign equality and the principle of unanimity were extensions of natural law that explained the equality of human beings. This idea about the individual equality was transferred from natural law to the relations between and among states. Since all men were created equal then all nations, which are composed of equal individuals, must also be created equal (Klein 1954, pp. 1-4). Based on this idea, every nation had a single and equal right to participate in international meetings and conferences in the early years of modern diplomacy.

During the 19th and early 20th centuries, the most common procedure for making collective decisions was the rule of unanimity. Statesmen considered the rule of unanimity to be a first principle of international organizations (Freeman et al. 1981, p. 278). Therefore, the founders of the League of Nations pursued these principles by drafting one nation-one vote principle as a voting rule. Until the end of League of Nations system with the start of WWII, they were implemented with the assumption that no international rule could be imposed against the will of any state because doing so would violate that state's sovereignty (Zamora 1980, p. 571).

However, the rule of unanimity and the doctrine of sovereign equality was established at a time when states had limited relations and globalization was not a widely spread phenomena. Moreover, international problems then, were not very rampant and few crises emerged when no decisions were made. Unlike those times, today, cooperation between states is very important and even considered to be vital in some instances, as exemplified in the collapse of the League of Nations due to lack of consensus among its members (Gourevitch 1999, p. 149). Therefore, impossibility to obtain a decision when a single member can impede a decision is a significant disadvantage of the rule of unanimity. In other words, members should come up with a decision to please everyone, which is very difficult if not impossible.

Studies of Arrow (1963) elicited one of the most striking criticisms against unanimity rule. As one can infer from its name *Arrow's Impossibility Theorem* illustrates the impossibility of gaining the unanimous consent of people within democracy. For him, the following properties are to be satisfied to exclude non-democratic components:¹

Non-dictatorship There is no individual whose preferences are to be followed regardless of the preferences of other individuals. In other words, a single individual cannot determine society's preferences without paying attention to what others think.

¹Arrow's requirements have been stated in a number of different ways. This one follows Aleskerov (1999, pp. 57-59).

Unrestricted Domain Individual preferences should not be limited. Individuals should be free to make any combination of preferences among a set of alternatives.

Independence of Irrelevant Alternatives Society's ranking of A and B depends only on individuals ranking of A and B . For example, assume that the preference between Socialist Party and Conservative Party is to be compared. When making this comparison, Liberal Party is to be considered irrelevant and should not be taken into account.

Unanimity (Citizens Sovereignty) If all the individuals prefer x to y , then society's ranking should prefer x to y .

However, there is no decision-making rule which can satisfy all these conditions at the same time. If all the four conditions are satisfied, then there should be a dictator who determines the preferences and choices of the rest so unanimity within a democracy becomes impossible to prevail.

Consequently, because of the disadvantages and difficulties of unanimity as a decision-making rule, it has been gradually abandoned in favor of majoritarian methods.

3.3.2 Majority Voting

Definition

With a majority voting rule, either one more than half of the voters must favor a measure or a measure should be backed by a number of members greater than the number of members supporting other proposals (Mueller 1989, p. 58 & Rosen 2002, p. 109). It may be useful to review the mechanics of majority voting with an example:

Consider a society of three voters 1, 2, and 3 who have to select among three alternatives A , B , and C . The preferences of voters are shown in Figure 3.2(a). Each column illustrates how the voter ranks the choices.

Suppose an election were held on whether to adopt A or B . While 3 would vote for B , 1 and 2 would vote for A . Then, proposal B would win by a vote of 2 to 1 despite the opposition by 3. Thus, the decision is taken by majority rule.

Explaining some technical concepts related to the working mechanism of majority rule such as voting paradox, median voting theorem and logrolling may be helpful before going into the subject of majority voting international organizations.

<i>Voter</i>			<i>Voter</i>		
1	2	3	1	2	3
<i>A</i>	<i>C</i>	<i>B</i>	<i>A</i>	<i>B</i>	<i>C</i>
<i>B</i>	<i>B</i>	<i>C</i>	<i>B</i>	<i>C</i>	<i>A</i>
<i>C</i>	<i>A</i>	<i>A</i>	<i>C</i>	<i>A</i>	<i>B</i>
(a)			(b)		

Figure 3.2: Majority Rule

Voting Paradox

Majority decision rules do not always yield such clear-cut results as in the above example. Suppose the preference order of individual h , for $h = 1, 2, 3$, is given by column h of Figure 3.2(b). Write \succ for the majority rule relation. We have $A \succ B$, since both 1 and 3 prefer A to B ; we have $B \succ C$ since both 1 and 2 prefer B to C . By transitivity we must therefore have $A \succ C$. But note both 2 and 3 prefer C to A . Since \succ is a strict ordering, this is a contradiction (Rosen 2002, p. 109).

As a result, one can argue that majority rule also has the disadvantage of being ambiguous due to its inconsistent results in some cases.

Median Voter Theorem

Another term related to majority rule is the median voter. First of all, explaining the median voter theorem requires the comprehension of the concept of single peaked preferences. Single peaked preferences exist when a voter's utility decreases as she moves away from her most preferred outcome in any ways and directions. In Figure 3.3, the utility for country X decreases in all points different from point 2. Therefore state X has single peaked preferences (Black 1971, p.14).

Having defined the single peaked preferences, the median voter theorem can now be explained. The median voter theorem states that the outcome of majority voting reflects the preferences of the median voter providing all preferences are single peaked (Black 1971, p. 18).

To demonstrate the theorem, assume that there are five countries that have an interest to raise a collective fund for the reconstruction of a neighboring country after a civil war. 100, 150, 200, 250, 300 millions of dollars are mostly preferred points respectively for countries A, B, C, D, and E. While the proposals which necessitate a collective fund of 100 and 150 will be rejected by country C, D and E; others requiring more than 200 will be stopped by country A, B, and C. Hence, the majority votes for 200 which is the amount mostly preferred by country C, the median voter. As a

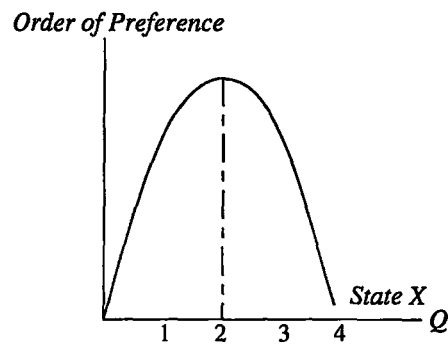


Figure 3.3: Single Peaked Preferences

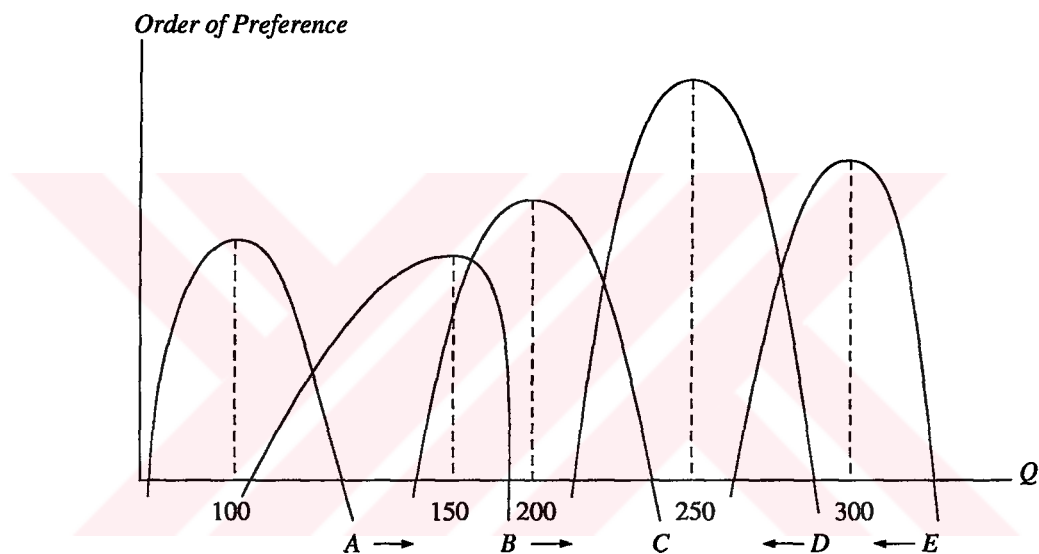


Figure 3.4: Median Voting

result, it is claimed that outcome of majority voting depends on the median voter.

Logrolling

Last terminological explanation concerning majoritarian systems is logrolling which allows voters to trade votes and constitutes a method to balance competing interests. For example, if the intensity of a preference is not very high for State X, then X may opt to vote for her second choice within an international organization or conference to support state Y that has an enormous preference for that alternative. In return for voting for the first choice of Y, X may ask Y's support on another subject matter. In other words, voters may trade their votes about issues of low-level priority in order to be backed on the issues of higher priority for them (Mueller 1989, pp. 82-86 and

Rosen 2002, p. 113).

Having explained the technical concepts related to the functioning of majority voting, its place in international organizations can now be analyzed.

Majority Voting and International Organizations

The departures from the rules of unanimity and sovereign equality first occurred in unions during the late 19th and early 20th century because of the intricacy to attain unanimity. Advancements in technology and industry was conducive to cooperative measures in several fields such as health, communication, and navigation. As a result, states established international organizations to sustain required cooperation (Zamora 1980, p. 574). However, efficient functioning of those organizations required a voting system other than unanimity due to the fact that even a single state could block decisions without respect to its size and power. Thus, in the organizational structure of those organizations, majority rule became a widely used mechanism besides the rule of unanimity. Following the establishment of International Telegraphic Union in 1865, usage of majority rule became widespread over the newly established organizations such as Universal Postal Union, International Wine Office, International Office of Chemistry, and International Institute of Agriculture in the early 20th century (McIntyre 1954, p. 486, Bowett 1982, p. 357).

Zamora (1980, p. 575) argues the following reasons for the adoption of majority rule first in administrative and technical unions: These organizations were limited in authority and scope to narrow, technical matters. Thus, states felt less need to protect their national interest through a veto power. Since the subject matter was usually technical, the representatives were often technical experts rather than diplomats. These experts were more willing to accept majority decisions based on practical rules of voting.

Consequently, arising difficulties in making practical decisions prompted the nations to establish organizations with little regard to natural and traditional law that requires unanimity. Especially, utilization of majority rule has been effective on the well functioning of international technical unions and paved the way for the application of other decision-making rules rather than unanimity such as qualified majority and weighted voting that are to be explained in the ensuing parts of this chapter.

Weighted Voting

Weighted voting is a system which assigns to members of international organizations votes proportioned on the basis of predetermined criteria. This may imply that members have the right to vote in varying weights based upon a factor or multiple factors such as population, territory, national wealth, trade, monetary contribution and etc

(McIntyre 1954, p. 484). Since studying the structure of World Bank and IMF may illustrate the working mechanism of weighted voting, this part will mainly focus on practice of weighted voting within these organizations.

Evaluation of the causes of the War revealed that economic imbalances contributed much to the climate of world conflict. After the World War II, western powers noted the absence of economic agencies in the League of Nations structure. Therefore, international economic organizations were established to meet the need of economic agencies for the surveillance of international economic activities. Thereby the Western powers preferred a structure that fostered the implementation of power in their decision-making mechanisms. As a result, international economic organizations emerged with new voting structures guaranteeing the supremacy of great powers in international economy.

During the negotiations of Bretton Woods Agreements, establishing World Bank for Reconstruction and Development (World Bank) and International Monetary Fund (IMF), which were central to plans for building a stable peace; the drafters of agreements were basically concerned with creating organizations to control the world economy. Therefore, they imposed weighted voting as the decision-making rule of these institutions in order to retain influence on the organizations in proportion to their contribution.

In both institutions, each member has two hundred fifty votes and one additional vote for each part of its quota equivalent to one hundred thousand special drawing rights in IMF or for its share of 100,000 US dollars in World Bank. As a result, voting power of countries varies in proportion to their contribution in funding the institutions. Unless otherwise specifically provided, all decisions of the organizations are made by a majority of the votes cast². Let $V(X_i)$ be the total votes of country X_i , $V(X_i)_c$ be the constant two hundred fifty votes, and $V(X_i)_a$ be the additional votes, then

$$V(X_i) = V(X_i)_c + V(X_i)_a.$$

Further, let $\rho(X_i)$ be the voting power of country X_i and $\sum_{i=1}^n X_i$ be the total number of votes in IMF, then

$$\rho(X) = \frac{V(X_i)}{\sum_{i=1}^n V(X_i)},$$

where n is the total number of countries in IMF and $i = 1, \dots, n$.

Moreover, each institution has a Board of Governors, which is the highest decision-making body. The Board of Governors, however, delegates a great portion of its power to a Board of Executive Directors due to the fact that while Board of Governors meets annually; the Board of Executive Directors is continuously in session. Therefore, the

²Article 12, Section 5 of IMF Agreement and Article 4, Section 3 of World Bank Agreement.

latter makes most of the decisions in both institutions and the same weighted vote applies in each organ.

Consequently, weighted voting mechanism is developed as a reflection of great power diplomacy after the World War II. This type of decision-making in international organizations is another departure from sovereign equality in which developed countries control majority of the votes.

Qualified Majority Voting

Other than simple and absolute majority voting, qualified majority voting is another type of weighted-majority voting which requires more than 50% of the votes. This type of voting has gained prominence after its adoption in the decision-making process of Council of Ministers within the European Union.

Understanding the working mechanism of the qualified majority may require deeper study of Council of Ministers. In fact, there are two ways of decision-making in the Council, which are unanimity and qualified majority. Since the Council was designed for national representatives to defend their national interests, decision-making rules necessitated unanimity before Single European Act in 1986. However, the rules have been changed so the qualified majority is sufficient to pass motions except for those that involve constitutional issues or areas of important national interest (Goodman 1996, p. 86, Swann 1995, p. 60).

Qualified majority voting in EU Council of Minister involves weighted voting in which the weighting is related to the population sizes of member countries. Until May 2004, the qualified majority was 62 of 87 votes and therefore, the blocking minority was 26 votes. In May 2004, twelve new members joined the EU, and the decision-making rules are amended accordingly. The new deal among the members over constitutional matters, which will be enforced by November 2009, adopts a double-majority voting system. With respect to this adjustment, a qualified majority will be reached if 55% of countries representing 65% of EU population approve (The Economist, June 26th-July 2nd 2004, pp. 31-32). This also implies that approval of at least 15 member states is necessary for a qualified majority (IKV Bulletin June 15th-30th, 2004, p. 1). This requirement prevents larger countries from dictating policy to smaller countries. On the other hand, this system protects larger countries from attempts of smaller countries to impose policies that they oppose (Hancock 1998, p. 528).

3.4 Conclusion

Effective functioning of international organizations require decisions to be implemented with the purpose of achieving the organizations targets. Therefore, decision-

making has vital importance in organizational structure. However, in this chapter only decision rules are analyzed as an important element of decision-making process.

Firstly, unanimity rule is explained with reference to the principle of sovereign equality. Secondly, after explaining some technical concepts about majority voting rules such as voting paradox, logrolling, and median voting; the evolution of majority rule in international organizations is briefly summarized. Furthermore, weighted voting and qualified voting with respect to their application is explained as sophisticated versions of majority voting rule.

However, studying decision rules does not suffice in order to reach a full understanding of decision-making in international organizations. In addition to the decision rules, the mode of relations between states should also be taken into consideration. For this purpose, styles of decision-making that is power and coercion, bargaining, and problem solving will be studied in the next chapter.



Chapter 4

Decision-Making in International Organizations: Styles of Decision-Making

4.1 Introduction

It has been argued in the previous chapter that effective functioning of international organizations requires a structure to make decisions binding over member or participant countries. For that purpose, decision rules of unanimity and majority were the focus of the last chapter. However, analysis of the rules does not suffice for the complete comprehension of decision-making process in international organizations. Therefore, in addition to the rules, decision styles such as power and coercion, bargaining and problem solving are to be studied.

More rigorous definitions for these styles will be provided through game theoretical analysis. Firstly, zero-sum game, the battle of the sexes, and the coordination game will be defined so as to demonstrate their association with the three styles of decision-making. Subsequently, the styles of decisions will be defined with reference to relevant literature in political science and illustrative examples from international relations and organizations will be included.

4.2 Game Theory

Some specific games have been especially discussed in game theory in order to reveal some of the significant features of social relations. Besides game theorists, other social scientists also study such games due to the fact that these games can be found within existing social structures. In this part, zero-sum game, the battle of the sexes and coordination game which have been frequently utilized to explain social interactions

		<i>Player 2</i>		
		<i>R</i>	<i>P</i>	<i>S</i>
<i>Player 1</i>	<i>R</i>	<i>T,T</i>	<i>L,W</i>	<i>W,L</i>
	<i>P</i>	<i>W,L</i>	<i>T,T</i>	<i>L,W</i>
	<i>S</i>	<i>L,W</i>	<i>W,L</i>	<i>T,T</i>

Figure 4.1: Rock-Paper-Scissors Game

will be analyzed. Defining them will constitute a theoretical frame to analyze decision styles in international organizations.

4.2.1 Zero-Sum Game

In simple games, which are actual sport contests like card games, chess, and football, there is a winner and a loser. Because players' interests are wholly opposed in such games, any benefit gained by one player is a loss to the other. These types of games are referred to as zero-sum games.

In a two-player zero-sum game, the pay-offs of player 2 are just the negative of the payoffs of player 1. In other words, the incentives of two players are diametrically opposed because one player wins if and only if the other player loses. This type of interaction implies that payoffs to all players will sum up to a constant value which is zero. Therefore, zero sum game is defined by Dutta (1999, p. 139) as one "*...in which the payoffs of the two players always add up to zero, no matter what strategy vector is played, that is for all strategies s_1 and s_2 such that $\pi_1(s_1, s_2) + \pi_2(s_1, s_2) = 0$.*"

Using children's game rock-paper-scissors may be useful to illustrate the logic of zero-sum games. This game requires players to form their hands into one of the three shapes and to show their hands to each other. As a result, a player either wins or loses or ties. A tie happens when both players show the same item. Wins and losses are determined according to the following rules: paper covers rock, scissors cut paper, rock breaks scissors. Therefore, a player showing the first items wins over a player showing the latter. As a result, rock-paper-scissors is a zero-sum game because whenever the first player wins, the second player loses; and whenever the first player ties, the second player also ties, as shown in the table below (Dixit and Skeath 1999, p. 81), where *R* stands for Rock, *P* Paper, *S* Scissors, *T* Tie, *W* Win, and *L* Lose.

Another point to be mentioned concerning the basics of zero-sum game is possible strategies of players. A player of zero-sum game searches for a strategy that makes

		<i>Husband</i>	
		<i>Opera</i>	<i>Fight</i>
<i>Wife</i>	<i>Opera</i>	2,1	0,0
	<i>Fight</i>	0,0	1,2

Figure 4.2: The Battle of the Sexes

her payoff the highest possible and makes the other player's the lowest. In the search of such strategies, a player may make a choice between the strategies of playing safe or playing sound (Dutta 1999, pp. 141-148). Firstly, a safe approach for a player is to play a strategy whose worst-case pay-off is better than the worst-case pay-off of any other strategy. Secondly, a sound approach for a player is to play a best response against opponent's strategy. This strategy is more optimistic in the sense that a player tries to predict the opponent's play and does the best against it. Dutta (1999, p. 146), however, concludes that playing the best response approach cannot do worse than by playing safely. Thus, none of the two approaches is superior to the other.

To sum up, in a zero-sum game a player does well if and only if the other player does badly. This is exemplified in rock-paper-scissors game above and the two strategies of playing safe and playing sound are briefly defined.

4.2.2 The Battle of the Sexes

Another classical example of Game theory is "The Battle of the Sexes" which dates back to the 1950s. In the traditional exposition of the game a couple are trying to decide on an evening's entertainment. Attending either an opera or a prize fight are two alternatives available on that evening. Moreover, both players would spend the evening together rather than apart. However, while the husband prefers to be together at the fight, the wife prefers to be together at the opera, as represented in the figure above (Gibbons 1992, p. 11).

At this point, possible strategies of the players may be discussed. In order to make a prediction on the basis of game theory, one may argue that the players should follow a best response strategy from which no player wants to deviate, and also a strategy which is strategically stable and self enforcing, i.e., Nash equilibrium, see for instance Gibbons (1992, p. 8) and Dixit and Skeath (1999, p. 82). As a result, it can be said that making a prediction is possible when there is Nash equilibrium.

However, in this game of 'The Battle of the Sexes', both (Opera, Opera) and (Fight, Fight) are the two Nash equilibria being two equally compelling strategies,

		<i>Driver 1</i>	
		<i>R</i>	<i>L</i>
<i>Driver 2</i>	<i>R</i>	1,1	-1,-1
	<i>L</i>	-1,-1	1,1

Figure 4.3: Coordination Game

which means that there does not exist a unique solution to this game (Gibbons 1992, pp. 11-12).

As a consequence, The Battle of the Sexes is a game forcing the players act together without specifying the direction. Thus, the resolution to this game is embedded in a bargain between the players.

4.2.3 Coordination Game

Having described zero-sum game and the battle of the sexes, the last game to be mentioned in this chapter is coordination game. In a two-player coordination game, the pay-offs of player 1 and player 2 are often the same. Moreover, the purposes of two players are to coordinate their behavior because one player wins if and only if the other player wins. Therefore, a winning strategy requires joint decision of the players (Heap and Varoufakis 1995, p. 35).

To illustrate a coordination game, consider the following example. First, assume that there is no rule available specifying which part of the street is to be chosen while driving. Besides, moving towards each other in opposite directions, two drivers must choose between driving on the left or on the right of a street. They will inevitably crash into each other unless they both decide to drive on the different parts of the street as shown in Figure 4.3. Therefore, a joint decision that ensures coordinated behavior of drivers that is, driving both on the left or on the right, is essential.

Also consider the following situation (described by Halpern as cited in Heap and Varoufakis (1995, p. 242)). Two divisions of an army are stationed on two hill-tops overlooking a valley in which an enemy division can be clearly seen. It is known that if both divisions attack simultaneously they will capture the enemy with very little loss of life. However, there are no prior plans to launch such an attack. This is also a coordination game (also referred to as coordination problem) as demonstrated in the below table in which C stands for coordinated attack and NC stands for “lack of coordination (Heap and Varoufakis 1995, p. 244)”.

As a consequence, coordination between players is a problem which can be solved

		<i>Division 1</i>	
		<i>C</i>	<i>NC</i>
<i>Division 2</i>	<i>C</i>	1,1	0,0
	<i>NC</i>	0,0	1,1

Figure 4.4: Coordination Game

by joint decisions of the players. In this game, both players win if coordination occurs, whereas they both lose if cooperation does not occur.

4.3 Styles of Decision-Making

Besides decision rules, “...patterns in which the interests are defined and issues are framed and resolved under applicable rules” (Scharpf 1990, p.323) should also be studied. Following Scharpf (1988) the term styles of decision-making is used in this survey. Moreover, taking the terminological cues from Scharpf (1988, 1990) and Olsen et al. (1982) power and coercion¹, problem solving and bargaining are used in order to classify decision styles in international organizations. In this part, these three styles will be defined and analyzed with reference to the relevant literature in political science and international relations.

4.3.1 Power and Coercion

Consider the famous scene of the movie ‘Godfather’ in which the chief of the family, Don Carleone, describes the way he reached an agreement with a businessman: “*I made him an offer, he could not refuse*”. In fact, the businessman could not refuse him because the offer was to make a choice between signing the agreement or being shot. This exemplifies the concept of ‘power and coercion’ where Godfather exercises power and coerces the businessman to do something to the advantage of the family.

However, power and coercion have broader applications in daily life than a movie can entail. Therefore, studying power has attracted some of the eminent thinkers and social scientists such as Kashuk Basu, Kenneth Galbraith, Felix E. Oppenheim, Robert Dahl, Harold Lasswell and Abraham Kaplan. Firstly, Basu (2000, p.134), referring to Weber, Russell, Mosca and Hayek, attempts to give a broad definition of

¹The term “power and coercion” is used here different from Scharpf (1988, 1990)’s and Olsen et al (1982)’s original term “confrontation”.

power and argues that “...it is the ability of one person to get another person to do something that is of advantage to the former but not in the latter’s interest.” Similarly, Oppenheim (1978, p.589) proposes the following definition of power to the same effect: “ ‘*P (a power-holder) exercises power over R (a respondent) with respect to x (an action of R)*’ means that *P influences or coerces R to do x.*” Besides, Dahl (1984, p.41) suggests that power means getting others to comply “*by creating the prospect of severe sanctions for non-compliance*”. Lastly, Laswell and Kaplan (1950, p.47) define power as “...*the process of affecting policies of others with the help of (actual or threatened) severe deprivations for nonconformity with the policies intended.*”

In the light of the above definitions, one may argue that power and coercion involves two parties and two steps (as described in Lawson (1993, pp. 37-38). In the first step, Party *A* threatens Party *B* with unpleasant consequences in case Party *B* does not take actions in a certain way. In the second step, Party *B* is obliged to act as Party *A* wishes. Otherwise, Party *A* carries out the threat. For example, Turkey made it clear that she was ready to punish Syria through use of military force if Syria insisted on ignoring the Turkish demand for the expulsion of Abdullah Ocalan, the leader of terrorist group PKK, out of Syria. Considering the threat from Turkey, Syria expelled him as Turkey wishes, in 1998.

Having defined power and coercion as the main concepts, certain types can now be elaborated. Galbraith (1983, pp. 14-37) suggests three kinds of power in his “Anatomy of Power”. First is the ‘Condign Power’ which wins submission by the threat to punish or to hurt. Second, ‘Compensatory Power’ wins submission by offering rewards. Finally, ‘Conditioned Power’ implies that the oppressed are so habituated to their situation that they are unaware of being oppressed, and thus they submit without any offer of reward or threat of punishment.

A formal distinction between the first and the second kind of power is by no means easy (Dixit and Nalebuff 1991, pp. 124-125). Consider the following proposals: (1) If you do not do it, I will not give you food; (2) If you do it, I will reward you by giving you food. There seems to be an ambiguity in these proposals because a punishment is often the denial of a reward, just as a reward can be the remission of punishment (Basu 2000, p. 134 & Airaksinen 1988, p. 215). Therefore, it is difficult to clarify the difference between condign power and compensatory power.

Moreover, Basu (2000, p. 135) claims that concerning the compensatory power, it is not clear who exercises power over whom. Suppose that a developed country offers to compensate a developing country financially if she votes against a motion that she wanted to support in the assembly of an international organization. This presents a kind of case where one would say that the developed country exercises compensatory power over the developing country. However, one may also argue that the developing country exercises power over the developed country by making her give up some of her

money against her preferences. Therefore, he argues that compensation is an element of symmetry which is not a convenient instrument for defining power.

As a result, power and coercion is a kind of relationship of control between two parties in which one dominates the other. In other words, it is a relationship in which the powerful one induces the compliance of the weaker. And it is also explained above that this relationship may be condign, compensatory or conditioned.

4.3.2 Bargaining

Many important and interesting human interactions can form bargaining situations. Married couples, for example, negotiate over matters such as who will take care of kids, and how the division of labor at home is going to be. In addition, in the political arena, a bargaining situation emerges when no political party can form a government on its own without resorting to coalitions. Moreover, much economic interaction involves bargaining such as over wages, prices et cetera. Therefore, studying bargaining is fundamental for the development of an understanding of the workings of political, economic and social interactions.

Consider the following situation (as described in Muthoo 1999, p. 1). An individual owns a house that she is willing to sell at a minimum price of £50,000. Another individual is willing to pay up to £70,000 for the house. If trade occurs at a price between £50,000 and £70,000, then both the seller and the buyer would become better off. In this situation these two individuals have a common interest to trade. However, they have divergent interests over the price. Whereas the buyer would like to trade at a lower price, the seller would like to trade at a high price.

As it is illustrated in the above example, in a bargaining situation players are able to produce some benefit through cooperating with one another if they can reach an agreement on a division between them (Heap and Varoufakis 1995, p. 111). In other words, they have a common interest to cooperate but the problem is how to cooperate despite conflicting interests that is, each player would like to reach an agreement that is as favorable as possible (Muthoo 2000, p. 4). Besides, if they fail to reach an agreement the potential benefit never comes into existence and all players lose out. Therefore, one can argue that bargaining problem includes any situation in which cooperation generates an advantage for the parties involved provided that they reach a consensus over its distribution among them.

Having defined what bargaining problem is, some determinants of bargaining outcome can be discussed. Muthoo (2000, p. 7-18) claims that impatience, risk aversion, inside and outside options, commitment tactics and asymmetric information play a crucial role in determining the outcome of a bargaining process:

1. *Player's degree of impatience*: A player's bargaining power is higher, the less

impatient she is relative to the other negotiator. For example, a poor country tends to be more impatient than a rich country in international trade negotiations. That is why a poor country would be willing to accept a trade agreement that is more favorable to the rich country allowing the rich country to become relatively better off.

2. *Risk Aversion*: Risk aversion adversely affects bargaining power that is the player who is less averse to the risk has a more advantageous position relative to the other negotiator. The eagerness of the risk averse player to minimize the risk of breakdown can be exploited by the less risk averse player by demanding a larger share. Therefore, the player, who likes risk more, gains more at the end of bargaining process.
3. *Outside Options*: During negotiations, players may have access to outside and inside options. For example, while negotiating the price of his/her house, an owner may already have a fixed price offer on his house which is referred to as outside option. Besides that, he might derive some utility while still living in the house, and this utility is referred to as an inside option.
4. *Commitment Tactics*: This involves a negotiator taking actions prior to or during the negotiations that partially commit her to some favorable bargaining position. For instance, a union's bargaining power is higher during wage negotiations if it has a strong commitment towards its members not to accept a wage that is less than a certain amount. The acknowledgement of the factory management that the cost to the union of revoking its commitment is high leads the management to give in and agree to offer what the union wants.
5. *Asymmetric Information*: In some bargaining situations one of the players may be equipped with more relevant information than the other player. For example, the seller of a house may know the quality of his house while the buyer may not when they are bargaining over its price. Therefore, the player who bears more information stands at a more advantageous side of bargaining.

Finally, another point to be mentioned about bargaining is the two different approaches which game theorists have adopted in their analysis of bargaining problem. First approach presents a series of axioms such as individual rationality, irrelevance of utility calibrations, independence of irrelevant alternatives, and symmetry, that any solution to the problem should satisfy. After a formal analysis, this approach comes up with a solution that satisfies all these axioms. This approach is both known as "axiomatic approach" and "Nash's bargaining problem" attributed to the studies of John F. Nash Jr. His solution (Nash 1950) to the problem is summarized by Heap and Varoufakis (1995, p.127) as follows:

Any distribution $(x\%, 100 - x\%)$ can be rationalized as a Nash equilibrium in bargaining games. Nash's bargaining solution selects one out of this plethora of Nash equilibria. The value of x that is picked, say x^* , is the one which maximizes the numerical value of the product of the two agents' cardinal utility gains. Effectively, the distribution $(x^*\%, 100 - x^*\%)$ maximizes this product and is the only distribution that satisfies John Nash's axioms.

Second approach is modeled as a step-by-step dynamic non-cooperative game.² In this game, one person makes an offer, expecting immediate agreement of the other player. The other player, in turn, may either concede or reject the presented offer. At this point, if the response of Player 2 is negative, then it becomes possible for him/her to bring up an alternative offer but at the cost of acquiring less payoffs than the first offer. As this process perpetuates the payoffs of the bargaining will relatively dwindle. Therefore, Rubinstein (1982, pp. 98-100) claims that there is only one offer that a rational bargainer would wish to make in order to prevent offers from being made in a game. Hence, if the players are rational, they have no choice but to accept the first offer.

To sum up, studying bargaining is fundamental to understand the functioning of political, economic and social interactions. Initially, factors determining the bargaining power of parties such as impatience, risk aversion, inside and outside options, commitment tactics and asymmetric information are summarized. Then, axiomatic and non-cooperative approach explaining bargaining behavior in game theory finally mentioned.

4.3.3 Problem Solving

Having described power and coercion and bargaining, problem solving will be briefly summarized in this part. Different from other styles of decision-making, problem solving requires existence of a common utility function for the parties involved, which implies that individual self interest for the decision at hand is irrelevant because actualization of individual interest depends on the pursuit of common goals or because individual interests are separated from distribution of costs and benefits by the neutrality of institutional arrangements (Scharpf 1988, p. 260).

The logic behind problem solving is similar to the collective action problem over the provision of public goods which was discussed in chapter one where it was argued

²In cooperative games, players can talk to each other and make agreements. In non-cooperative games either there exists no communication among the players or no agreements are binding. Further readings in this topic include Dixit and Skeath (1999), Kreps (1990), Binmore (1992) among many others.

that coercion, independent contributions, size of the group, and marginal cost sharing are some methods to ensure sufficient provision. To briefly summarize the main idea, individuals cannot produce public goods unless they cooperate or coordinate their behavior. Similar to individual citizens within borders of a state, individual states as members of international community have a common utility function which requires coordinated or collective action. Thus, only cooperation will engender the necessary conditions for the accomplishment of individual goals.

Moreover, when a conflict over the distribution of limited resources emerges, resolving it through the style of problem solving may be better than other styles with recourse to common norms and values, or adjudication (Scharpf 1988, p. 265). For example, assume that two member countries of an international organization have conflicting interests over an issue within the scope of the organization. Then these countries may resolve this problem by either making use of the values and norms of the organization or they may appeal to a "dispute resolution mechanism" if it exists within the organization.

Consequently, problem-solving style of decision necessitates coordination and cooperation among agents. This style may also include resort to common values and norms, or to an adjudication mechanism.

4.4 Game Theory and Decision Styles in International Organizations

The three decision styles may be matched with the three games mentioned before. Firstly, "power and coercion" type of relations between countries and decisions as a consequence of that kind of relations correspond to zero-sum games in which the powerful party coerces the weaker to act as she wishes. Secondly, the dilemma of two parties, which want to cooperate despite their opposing demands resembles the battle of the sexes. Thirdly, the decision style of problem solving works in a similar way as described in coordination game which illustrates the necessity of harmony between parties involved.

4.4.1 Power and Coercion and Zero-Sum Game

Power and coercion style of decision-making resembles zero-sum game because decisions taken through power politics undermines the interests of the less powerful countries and on the contrary fosters the interests of the powerful countries. Decision-making mechanisms, which takes power differences into consideration and allows powerful countries to impose their demands on the less powerful countries, may be preferred by powerful countries. Therefore, great powers may wish to insert this style

into the decision-making mechanism of international organizations.

Briggs (1945, pp. 669-670) refers to the example provided by the League of Nations in order to demonstrate the significance of 'power politics' in international organizations and claims that the League of Nations system collapsed because power politics was not recognized in the formal decision-making structure of the League. The Covenant of the League of Nations recognized sovereign equality of states through the rule of unanimity and restricted the preponderance of great powers. However, the great powers, which were prevented from using power politics within the organization, developed alternative methods to bypass the organization. For instance, representatives of great powers "*...met over a cup of tea and make decisions in advance of League meetings, and subsequently steam rolled the decisions through the League* (Briggs 1945, p.670)." Another method was to suspend the jurisdiction of the League organs through the argument that the matter was already dealt with by the Conference of Ambassadors in Paris, an organ of great powers. Thus, the real decisions were made outside Geneva. These decisions disclosed the extensive role of power in the League which undermined the organization's effectiveness and eventually caused the dissolution of the League of Nations.

Another example to illustrate the importance of power politics may be the structure of the United Nations which replaced the League of Nations. Different from the League, United Nations Charter recognized the preponderance of great powers by granting them permanent membership with absolute veto power in the Security Council, which has greater power and authority than the General Assembly and the other organs, and adopted majority voting rule (rather than unanimity) in the General Assembly. Thus, United Nations was structured in a way to allow power politics within its formal decision-making process (Zamora 1980, p. 574).

Consequently, the decisions, which are imposed by powerful countries through power politics, are result of the style 'power and coercion' in the decision-making process of international organizations. This style of decision-making plays a significant role in international organizations as depicted in the dissolution of the League of Nations and in the configuration of the United Nations organizational structure.

4.4.2 Bargaining and the Battle of the Sexes

Another group of decisions can be attributed to a kind of conflict between countries which cannot establish hegemony over each other and therefore fail to impose their terms through use of power. Moreover, they do not wish to leave the conflict unresolved because resolution of conflict results in a non-zero-sum situation in which both parties have something to gain (Sullivan 1971, p. 360). At this point, it is necessary for these countries to come together and bargain in order to reach an agreement

over the terms of a possible resolution. The outcome of bargaining, however, would be determined by the bargaining power of the countries as explained before. Since the countries involved in bargaining have different bargaining powers, the amount of gains would not necessarily be same for each country. Schelling (1960, p.5), therefore, argues that international conflicts are variable sum games in which “...*the sum of the gains of the participants is not fixed so that more for one inexorably means less for the other.*” Thus, one may claim that conflicts are not strictly win or lose situations, on the contrary both parties may gain at the same time but some may gain more than the others (Hoopman 1995, p. 32).

Bargaining between two countries involved in a conflict resembles the game “battle of the sexes”. In this game, spouses prefer to spend the evening together rather than apart. Therefore, they both have a common interest not to leave the conflict unresolved and to reach an outcome: going to the opera or boxing match. However, husband would enjoy a higher utility if they go to the match and on the other side wife would enjoy a higher utility if they go to the opera. As a result, the outcome may be determined through a bargain between the spouses.

To illustrate this bargaining process in an international organization, the ongoing negotiations between Turkish and Greek Cypriots under the auspices of the United Nations may be considered as an example. Cyprus was divided into two parts, Turkish and Greek administrations,³ after the military intervention of Turkey in 1974 in order to protect the Turkish community in the island. Negotiations between the two administrations have been in progress in order to stick the two parts together. This conflict is very similar to the battle of the sexes because a resolution of the conflict would benefit both parts of the island. However, the administrations have different proposals so as to end the dividedness in the island. Therefore, a possible resolution may benefit one party more than the other and bargaining process will not provide a resolution unless one of the parties allows the other to enjoy a higher payoff.

During the latest negotiations over a plan introduced by Kofi Annan, the General Secretary of United Nations, the two parties came very close to reach an agreement. However, the Greek Administration has focused on the gains of the Turkish part and therefore pursued a campaign calling the people to vote against the plan. The leader of Turkish Community (the President of Turkish Republic of Northern Cyprus), Rauf Denktaş, who was discontent with the gains of the Greek Administration, launched a similar campaign in the Turkish part of the island. As a result, the plan was rejected by an overwhelming majority of Greek voters but accepted by a majority of Turkish voters which implies that the plan could not attain necessary the consent.

³Turkey recognizes the Turkish Administration as Turkish Republic of Northern Cyprus. Greek Administration is recognized by international community as the Republic of Cyprus.

This example demonstrates that a bargain may create a win-win situation provided that a party may win more than the other and the other should be content with this result.

4.4.3 Coordination and Problem Solving

Final group of decisions are those where the parties involved does not have much difference by means of power and when they refer to same values and norms in order to reach a solution (Hoopman 1995, p. 30). In addition, parties may appeal to courts functioning within this frame of shared norms and values (Scharpf 1988, p. 265).

This type of decision may be demonstrated through the problem over the flow of traffic. As mentioned before, drivers should choose driving either on the right or on the left of a street as a safety measure. Therefore, each state adopted certain norms to coordinate the traffic. In fact, the flow of traffic is on the right in many countries except England and Commonwealth countries.

Another example of 'problem solving' can be attributed to the common policies of the European Union such as Common Justice and Home Affairs, Common Agricultural Policy, European Monetary System which ensure political, social and economic harmony among the EU members. For instance, agricultural subsidies and other support programs of EU members are defined with reference to Common Agricultural Policy. The members are also provided with guidelines describing social security and tax programs to be implemented by the members. The members have to comply with the terms of these common policies or guidelines while formulating their individual policies. When a member fails to comply with the common policies, not only other members but also institutions and individuals may take the matter to European Court of Justice whose decisions bounds all members, that is, the law of the members have to be amended in accordance with the decisions of the Court (Swann 1995, p. 64). This exemplifies the use of 'problem solving' as a decision-making mechanism in an international organization.

4.5 Conclusion

It has been argued so far that understanding the process of decision-making requires the study of both the rules and the styles in international organizations. The focus of this chapter is therefore on the styles of decision-making styles. In order to categorize decision-making styles, the structure in the studies of Scharpf (1988, 1990) and Olsen et al. (1982) has been followed which argue about three different styles of decision-making: power and coercion (confrontation), bargaining, and problem solving. Furthermore, it has been argued above that some particular games correspond

to three styles of decision-making. In fact, the working mechanism of 'power and coercion' is very similar to 'zero-sum game', 'bargaining' can be analyzed, as 'the battle of the sexes' and 'problem solving' is a kind of 'coordination game'.

Then, in the second part of the chapter examples have been given from international organizations illustrating three styles together with the corresponding games. Firstly, some instances of great power diplomacy have been utilized in order to exemplify power and coercion in the League of Nations and in the United Nations. Secondly, the negotiations over Cyprus has analyzed as a case of bargaining. And lastly, the coordination of European Union is used as an example of problem solving.

The importance of international public goods is emphasized in the first chapter. It was argued that the provision of international public goods depends on the establishment of international organizations. Moreover, international organizations should make decisions binding over its members in order to sustain an optimal level of production of public goods. Thus, decision-making in international organizations is elaborated. First, decision-making rules are studied in Chapter 2. Then, decision-making styles are examined in this chapter. Up until now, the survey remained to be theoretical and general in its scope. However, this theoretical framework established in the first three chapters can be applied to a particular international organization. Next chapter will, therefore, deal with the *World Trade Organization*.

Chapter 5

Decision-Making in the WTO

5.1 Introduction

The significance of international collective action, and the need for nations coming together and taking decisions was mentioned in the first three chapters. Also, three theoretical elements have been elaborated: first, the logic behind international organizations; second, the importance of decision-making mechanisms, rules and procedures; and finally, the styles of decision-making in international organizations.

This chapter will attempt to provide an empirical application of these three theoretical elements in the case of the World Trade Organization. What the logic behind the WTO is, what the decision-making rules are, and what the decision-making styles in the WTO are, are the three questions to be answered within the framework of this thesis. With this purpose in mind, the structure of the WTO will first be studied together with an introduction of its main functions and principles.

5.2 Functions and Principles

In this part, a summary of the history of the WTO will be entailed starting from the establishment of GATT ensued by the statement of the principles of the WTO: non-discrimination, reciprocity, binding and enforceable commitments, transparency and safety valves. Finally, a study of the organizational structure of the WTO with reference to the functions and responsibilities of Ministerial Conference, General Council, Secretariat, and Director General will be presented.

5.2.1 A Brief History from GATT to WTO

Having developed an organizational structure under GATT (General Agreement on Tariffs and Trade), the WTO was established in 1995 in order to administer the trade agreements between member countries. These trade agreements include GATT (the

General Agreement on Tariffs and Trade), GATS (the General Agreement on Trade in Services), and TRIPS (the Trade Related Aspects of Intellectual Property Rights).

The emergence of the WTO is the outcome of a long process of negotiations on international trade which began during the reconstruction period after World War II. In October 1947, Geneva, Switzerland, twenty-three countries initially signed up to GATT with the purpose of liberalizing international trade. Subsequently, in November 1947, delegates from 56 countries convened in Havana Cuba in order to negotiate the charter of the International Trade Organization, the function of which was to administer the world trade. However, negotiations over the charter of ITO failed due to the failure of the U.S. Congress to ratify the agreement leaving GATT as the only international instrument governing world trade.

A thorough analysis of GATT's achievements and failures will provide a comprehensive study of the history of this organization crystallizing the scope of its impact on international trade. The elimination of trade barriers among countries achieved by abolishment of tariffs and non-tariff barriers can be regarded as primary achievements of GATT. This can be illustrated in figures that reflect an expansion in the number of member countries in the rounds and respective reduction in tariffs.

Table 5.1: GATT Rounds

Name	Dates	Objectives	Tariff Reduction	Members
Geneva	1947	Adoption of GATT	21.1%	23
Annecy	1949	Tariff Reduction	1.9%	13
Torquay	1951	Tariff Reduction	3.0%	38
Geneva	1956	Tariff Reduction	3.5%	26
Dillon	1960-1962	Tariff Reduction	2.4%	26
Kennedy	1973-1979	Tariff Reduction	36%	62
		GATT Negotiation Rules		
Tokyo	1973-1979	Tariff Reduction	35%	102
		Non-Tariff Barriers Codes		
Uruguay	1986-1994	Broadening of GATT		123
		Establishment of the WTO		
Seattle	1999	Unsuccessful		
Doha	2001	Development Agenda		
Cancun	2003	Unsuccessful		

(pacific.commerce.ubc.ca/trade/GATT-rounds.html, see also Deardorf and Stern (2000, p. 54) and Savas (2004, p. 120))

Conversely, the shortcomings of GATT may outweigh its achievements since the GATT rounds failed to conclude agreements on agriculture and textiles, which are the two most fundamental sectors for the economy of the lesser-developed countries (Savas 2004, p. 117). Also the tacit protectionist agendas within GATT, such as voluntary export restrictions (VERs) unilaterally administered by thriving exporter contributed to the weakening of GATT in fostering free market policy. Boonekamp (1987, p. 2) explains that VERs is “*a measure by which the government or an industry in the importing country arranges with the government or the competing industry in the exporting country for a restriction on the volume of the latter's exports of none or more products*”. Furthermore, other protectionist measures such as voluntary restraint agreements (VRAs), which are bilateral interstate agreements, voluntary import expansion agreements (VIEs) and orderly marketing agreements (OMAs) failed to comply with GATT principles and eroded any chance to liberalize the international trading system (Hizon 1994, p. 106).

Another disadvantage of GATT was its vulnerable structure. Failures stemming from a poor organizational structure can be explained through a brief display of the discrepancies between the WTO and the GATT's organizational structure. Firstly, the WTO is a permanent organization whereas GATT did not go further than being a temporary arrangement among countries (Whaley and Hamilton 1996, p. 123). Secondly, GATT was a flexible institution in which countries could “opt out” of specific disciplines whereas the WTO is a legal entity with no place for reservations and its rules theoretically apply equally to all members (Hoekman 2002, p. 41). Thirdly, the dispute settlement procedures of the WTO are stronger than those under GATT (Whaley and Hamilton 1996, p. 124). The above failures of GATT were more pervasive than its achievements which led to the establishment of the WTO.

However, it must be born in mind that apart from being a well structured organization, the WTO was unable to craft viable policies to ensure the consolidation of liberal trade. A string of failures and insufficient achievement elicits that the WTO has got itself derailed from its main target. For example, the Ministerial Meeting in Seattle failed to launch a new round, in 1999. Moreover, the trade talks in Cancun Mexico collapsed after four days of dispute over agriculture subsidies (bbc.co.uk/go/pr/fr/-/hi/world/europe/country_profiles/2430089.stm). These two fruitless attempts to start new rounds of talks indicated that the WTO was unable to accomplish more than GATT.¹

¹Doha Development Agenda in November 2001 and China's membership in September 2001 are the two latest incidents to be mentioned to present a comprehensive summary of events from GATT to WTO.

5.2.2 Functions and Principles of the WTO

The main principles of the WTO are not exhibited in any single article of WTO/GATT agreements. However, researchers and specialists have defined a general group of principles spread over the WTO agreements. Hoekman (2002), in particular specifies five main principles of the WTO: non-discrimination, reciprocity, binding and enforceable commitments, safety valves and transparency.

Non-Discrimination

The principle of “non-discrimination” comprises two main parts: most favoured nation and national treatment.

The most favoured nation rule requires that a product from a member country be treated no less favorably than a similar product from any other country (Hoekman 2002, p. 42). In other words, the imports of the same goods originating from member countries should be treated equally (Ohyama 2002, p. 76). The GATT Agreement (1947, Art. 1) also mentioned that: “...*any advantage, favor, privileges or immunity by any contracting party to any product originating in or destined for any country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of any other parties.*” This means that once negotiations and concessions have been concluded between two members the results extend to all other members.

Another example of this principle can be explained with reference to the theory of comparative advantage, which argues that countries should specialize in the production of goods which they can most efficiently produce and import goods they are ill-equipped to produce. As an extension of this theory, a member country has an incentive to import low priced goods from other member countries and export its own goods to members at high prices (Ohyama 2002, p. 76). Therefore, it is claimed that a country can attain efficient international trade through the most favored nation rule.

Moreover, the principle of the most favored nation rule can also be interpreted to the contrary. For example, if a country desires to raise trade barriers or to cut privileges previously given to a trading partner then it must equally apply this changed trade regime to all other members (Hoekman 2002, p. 42). Therefore, in order to nullify the privileges to a single trading partner, a country should challenge the whole system and may face the resistance of all other members. Thus, once a country becomes part of free trade and applies the most favoured nation rule, it is very difficult to escape from the iron cage of free trade.

The other major component of non-discrimination is the national treatment rule which requires that foreign goods be treated in the same way as domestic products in

terms of internal taxation and other domestic measures. It is mentioned in the GATT Agreement (1947, Art. 3) that “...*internal taxes and other internal charges, and laws, regulations and requirements affecting internal sale, offering for sale, purchase, transportation, distribution or use of products, and internal quantitative regulations requiring mixture, processing, or use of products in specific amounts or proportions should not be applied to imported or domestic products so as to afford protection to domestic production.*” This principle ensures that liberalization commitments are not offset through the imposition of domestic taxes and other similar measures (Hoekman 2002, p. 42). Therefore, this requirement gives foreign suppliers greater certainty in foreign markets where they compete with domestic firms.

Reciprocity

Reciprocity is informally defined as you “get what you pay for,” or more aggressively “pay for what you get” (Finger and Winter 2002, p. 55). In practice it involves a concessional act made by one party conditional upon a concession made by another party (Hoekman 2002, p. 43). The preamble of the GATT Agreement (1947) defines reciprocity as an instrument to attain its objectives “...*by entering into reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international commerce.*” Article 28 bis of the GATT Agreement (1947) also stipulates the need for “reciprocal and mutually advantageous concessions”. Hence, reciprocity illustrates the desire to obtain “payment” for trade liberalization and restricts free-riding that is, to benefit without giving anything in return (Hoekman 2002, p. 43).

Ohyama (2002, p. 80) argues that reciprocity has been used by merchantalists and protectionists as a ground for maintaining trade barriers and for punishing free-riding countries that engaged in unfair trade by maintaining high trade barriers. For example, US 1890 Trade Act was aimed to impose tariffs upon the imports from countries who practised unequal restrictions on US products. However, a unilateral reduction of tariffs and other trade restrictions is not incentive-compatible since it will worsen a country’s terms of trade and may lower its potential welfare. He further claims that if all countries act non-cooperatively, the result would be an inefficient equilibrium in which some countries would become worse-off than free-trade. nevertheless, participating countries may be induced to reduce trade barriers if reciprocity is combined with the Most Favored Nation rule as exemplified by the US 1934 Trade Act which came to be recognized as a powerful instrument to realize international trade liberalization. Hence, reciprocity is to be redefined to include MFN rule according to Ohyama (2002, p. 80).

Another argument concerning reciprocity in the WTO is that it is difficult to mea-

sure how advantageous are the “mutually advantageous concessions”. The GATT and the Marrakech Agreement are silent on how a member might measure the advantage it draws from an agreement. This means that it is up to each sovereign member to determine what is to its advantage. Besides, it is claimed that there is a balance in the advantages provided by an agreement because contracting parties have the right not to sign the agreement if they do not find it advantageous. However, this point is controversial because reciprocity cannot determine the main points of an agreement unless there is an instrument to measure the advantages of the parties. On the contrary, reciprocity does not establish an agreement but agreement defines reciprocity (Finger and Winter 2002, p. 51). This is also observed by Arthur Dunkel, Director General of GATT from 1980 to 1992, who remarked that “Reciprocity cannot be determined exactly; it can only be agreed upon” (GATT Press Release 1312, March 5, 1982). As a result, “an agreement defines balance, not the other way round” (Finger and Winter 2002, p. 51).

Binding and Enforceable Commitments

Since liberalization commitments and agreements have little value if they cannot be enforced, the WTO Agreement (1994) contains certain measures to make these commitments binding. The WTO Agreement (1994) states that “...the agreement and associated legal instruments ...are binding on all members (Article 2).” The WTO Agreement is a single undertaking where reservations are not allowed and members are to accept the agreement as a whole.

The WTO establishes certain tools and mechanisms with the purpose of resolving problems and conflicts among the members for the enforcement of its agreements, in particular, expert panels and the Dispute Settlement Mechanism. In the case of unfair trade, such mechanisms may call on a country to provide compensation. If that country fails to provide compensation, then the complaining country may retaliate unilaterally and may “suspend substantially equivalent concession” which is subject to disagreement between the two countries (WTO 1994, Article 19). For example, the WTO Dispute Settlement Mechanism has twice authorized retaliation in the Bananas case and the Beef Hormone case (Finger and Winters 2002, p. 53).

As a result, the WTO ensures that its liberalization agreements are not only binding but also enforceable through the institutionalization of expert panels and the Dispute Settlement Mechanism because agreements would be meaningless if there were not any mechanism to enforce them.

Transparency

Enforcement of commitments also requires access to information on the trade regimes of members. Therefore, the WTO Agreement (1994) states that members are required to publish “*laws, regulations, judicial decisions...and agreements affecting international trade policy...in such a manner as to enable governments and traders to become acquainted with them*” (Article 10.1). The members are also required to “*...maintain or institute...judicial, arbitral and administrative tribunals...for the purpose of the prompt review and correction of decisions...*” affecting trade and to respond to the requests for information by other members (GATT 1947, Article 10.3(b)). Finally, trade policies of members are scrutinized by Trade Policy Review Mechanism as part of transparency requirements (WTO 1994, Article 4.4). To sum up, transparency is a complementary principle for the effective enforcement of liberalization commitments which necessitates publication of all kinds of trade regulations by members and surveillance of trade policies through Trade Policy Review Mechanism.

Safety Valves

This principle defines the circumstances in which governments may restrict trade. Hoekman (2002, p. 44) defines three types of provisions. First, governments are allowed to restrict trade to attain non-economic objectives such as public health, national security, and industries that are seriously injured by competition from imports (GATT 1947, Articles 20 and 21). Second, ensuring fair competition may necessitate the restriction of free trade by imposing countervailing duties on imports that have been subsidized and anti-dumping duties on imports that have been dumped (GATT 1947, Articles 16 and 19). Third, member countries may intervene in trade for economic reasons when for example they are in serious balance of payments difficulties or when it is of vital importance to support infant industry (GATT 1947, Articles 18 and 19). Therefore, safety valves are the measures which grant members the right to escape from the requirements of free trade agreements under certain circumstances defined above.

5.2.3 Structure of WTO

In the preamble to the Agreement Establishing the World Trade Organization, members endorse the objectives of growth, employment, sustainable development, and progress for developing countries. In order to achieve these objectives, some instrumental elements and mechanisms are required to ensure the effective functioning of the organization. The instruments and mechanisms, which compose the structure of the WTO, include the WTO agreements, a set of committees, ministerial confer-

ence, general council, the secretariat, Director General, surveillance procedures and membership mechanisms.

Ministerial Conference

The Ministerial Conference, which is composed of trade ministers of all members, is the most directly authoritative decision-making body within the WTO. In order to take decisions on all matters under any of the multilateral agreements, Trade Ministers of member countries meet at least once every two years (WTO 1994, Article 4.1). Ministerial Conferences, held under the auspices of the WTO, are Singapore 1996, Geneva 1998, Seattle 1999, Doha 2001, and Cancun 2003.

General Council

The General Council, which is composed of representatives of all members in Geneva, carries out functions of the Ministerial Conference in the intervals between the ministerial meetings (WTO 1994, Article 4.2). In other words, it is responsible for accomplishing day-to-day tasks within the organization (Jawara and Kwa 2003, p. 16).

The General Council carries out the day-to-day business of the World Trade Organization through a set of committees, councils and working groups. For example, the Council for Trade in Goods, and the Council for Trade-Related Aspects of Intellectual Property Rights are the two particular councils operating under the general guidance of the General Council. The Councils oversee the functioning of the relevant agreements (WTO 1994, Article 4.5). Also reporting to the Ministerial Conference are six other committees: Trade and Development, Trade and Environment, Least Developed Countries, Regional Trade Agreements, Balance of Payments Restrictions, Budget, Finance and Administration (WTO 1994, Article 4.7; and Jawara and Kwa 2003, p. 17). There are also working parties on accession and working groups on the relationship between trade and investment, on the interaction between trade and competition policy, on transparency in government procurement; on trade, debt and finance and on transfer of technology. Membership in all councils is open to representatives of all members (WTO 1994, Article 4.5). However, the requirement of attendance at all of these meetings place a great burden on member governments especially on the least developed members who lack resources to fund qualified staff.

The General Council also acts as the Dispute Settlement Body and Trade Policy Review Body. As mentioned before, many WTO agreements require member governments to inform the other members, through the WTO Secretariat, promptly about their new or modified measures in accordance with the principle of transparency. Moreover, trade policies of each member are subject to review through the Trade Policy Review Mechanism. The frequency of reviews is determined by a member's share

of international trade. The four biggest traders are examined once every two years. The next sixteen are reviewed every four years and the other remaining members are reviewed every six years (Wolfe 1999, p. 217). The Dispute Settlement Mechanism is also a means for the surveillance of the trading system other than the Trade Policy Review Mechanism. Members use it to clarify the meaning of the agreements and to monitor the implementation of rules. It also governs the process of settling trade disputes. It has the authority to establish panels of experts to develop conflict resolutions between members. As a result of this process, compensation to the complaining member is considered if the immediate withdrawal of the offending measure is not possible. In other cases, panels may decide to retaliate or impose sanctions as a last resort. Either party may appeal against a panel's ruling and this appeal is heard by the Appellate Body which is also set up by the Dispute Settlement Mechanism (Jawara and Kwa 2003, p. 16). This mechanism will be studied in more detail later in this chapter under the decision-making styles in the World Trade Organization.

Secretariat

The Secretariat in Geneva has around 550 staff headed by the Director General. The staff is divided into twenty-three departments headed by a director under the supervision of four deputy directors. The budget of the WTO was around 155 million Swiss Francs in 2003, which is composed of individual contributions of its members based on their share of world trade (www.wto.org).

Since the decisions within the WTO are taken by the members in the Council of Ministers, the Secretariat does not have any decision-making powers. The functions and responsibilities of the Secretariat are summarized in the official website of the organization as follows: to supply technical and professional support for various councils and committees, to provide technical assistance for developing countries, to monitor and analyze developments in world trade, to provide information to the public and the media, to organize ministerial conferences, to provide legal assistance in the resolution of trade disputes involving the interpretation of WTO rules and precedents, and to deal with accession negotiations for new members and providing advice to governments considering membership.

Director General

Since the WTO has inherited a member driven organizational structure from GATT, the role of the Director General remains ambiguous and deprived of any power to control the agenda or convene an assembly. Still the Director General is expected to lead the organization (Wolfe 1999, p. 215). Today, Dr. Supachai Panitchpakdi from Bangkok is Director-General of the World Trade Organization. He took up his

appointment on 1 September 2002 for three years. He is the first Director General from a developing country in the history of GATT and WTO. However, his appointment as director general was the result of a hard bargain between developing countries and the United States. While his appointment was supported by a great majority of members mostly composed of developing countries, a small group of members including the United States strongly opposed this appointment. Eventually, the Australian representative proposed a compromise that envisaged the appointment of a candidate supported by the United States followed by the appointment of a candidate supported by developing countries. Therefore, members agreed that

“...Mike Moore of New Zealand be appointed as Director-General for a term of three years, beginning on 1 September. The General Council, the WTO’s executive body, further agreed that Mr. Moore would be succeeded by H.E. Dr. Supachai Panitchpakdi of Thailand, who will serve a three-year term beginning 1 September 2002 (WTO Press Release, No.131, 22 July 1999).”

This incident elicits the fact that the Director General occupies an crucial place in the organization, despite the ambiguity of the inherent role.

Consequently, having described the structure and principles of the WTO, reasons of collective action which led to the establishment of GATT and the WTO will be studied in the ensuing part.

5.3 Why Cooperate

The first chapter of this thesis was an attempt to analyze the reasons for cooperation both at the national and international level. It was claimed that an authority is required in order to set rules and provide indivisible benefits, public goods, for all members of society. Thereby, the state is introduced as a mechanism to supply these goods. When the same logic is applied to international relations, it was argued that international organizations came into existence as another kind of authority to establish a system for the provision or maintenance of international public goods. Similarly, the World Trade Organization constitutes a mechanism, or stands as an international authority which ensures provision of some international public goods. This thesis will now try to illustrate the reasons why nations have cooperated to establish the World Trade Organization. In other words, the goods and services, which are and should be provided by the World Trade Organization, will be focus of our study. These goods and services will be elaborated under three categories: promotion of peace and stability, surveillance of world trade, and trade liberalization. However, it must be born in mind that these benefits are not fully accomplished.

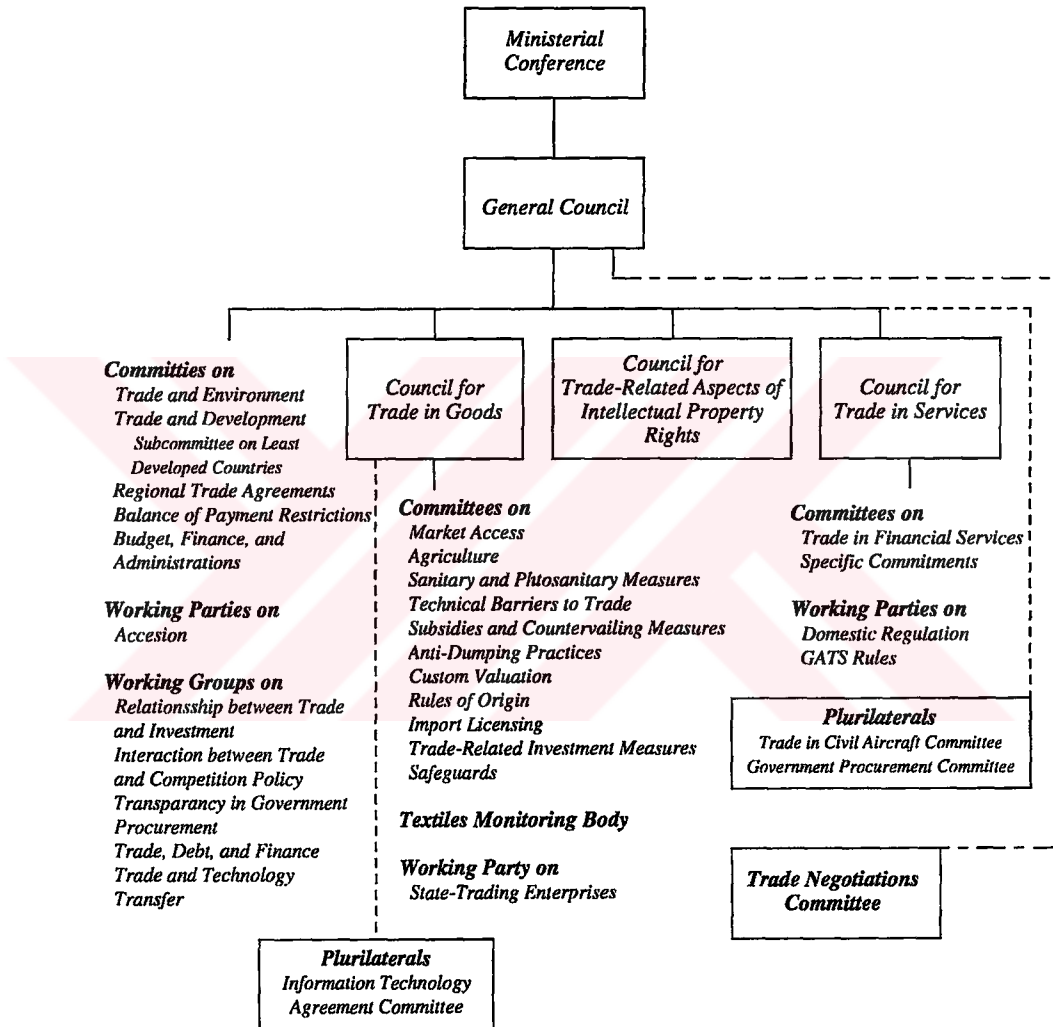


Figure 5.1: The Organization Chart of the WTO

Consequently, promotion of peace and stability, liberalization and surveillance of international trade are the three services that are supposed to be provided by the WTO. However, these benefits are not fully accomplished by the organization mostly due to deficiencies of its decision-making mechanism favoring developed countries and undermining the interests of lesser-developed countries. Furthermore, it must also be kept in mind that except for the promotion of peace and stability, these benefits are not global public goods because liberalization and surveillance of international trade only provide benefits for the members and thereby, do not comply with the properties of non-excludability and non-rivalry of public goods. Nevertheless, these three services explain the logic of international collective action, which led to the establishment of the WTO.

5.3.1 Promotion of Peace and Stability

Establishing authority for the regulation of international trade, the World Trade Organization has played a significant role in the promotion of peace and stability in international relations. The WTO contributes to maintenance of peace and stability by ensuring smooth flow of trade and acting as a forum which creates a constructive environment for dealing with disputes over trading issues (WTO 2004, p. 3).

Many trade disputes have turned into vicious wars throughout history. For example, in 1854 with four warships anchored at Tokyo Bay, Commodore Perry forced the Japanese government to sign a treaty, which opened the doors of free trade with Japan (www.history.navy.mil/branches/teach/ends/opening.htm). Another example is the Opium Wars between the United Kingdom and China. In the early 19th century, although trading goods from China was lucrative for Europeans, it was difficult to find goods that the Chinese wanted. However, the British used opium as a means to enter the Chinese market. The Chinese government attempted to end this trade to protect public health. This attempt resulted in a war between China and United Kingdom. The war ended with the Treaty of Nanking which opened the Chinese market and committed the Chinese to free trade (www.nationmaster.com/encyclopedia/First-Opium-War). Finally, World War II may also be seen as an example of economic disputes ending in war. In the 1930s, countries competed to raise trade barriers in order to protect domestic producers. They also retaliated against each other's trade barriers. This worsened the Great Depression of the 30s and played a significant role in the outbreak of war. Today, however, the World Trade Organization provides a forum for nations to come together and negotiate the terms of international trade. It also forms a constructive and legal environment for the settlement of disputes among members. The WTO simply nullifies the argument for the need to resort to military measures to resolve a dispute over international trade. Therefore, it contributes to the promotion

of peace and stability in the world.

Furthermore, the WTO acting as an organization which ensures to flow of trade as smoothly as possible, serves in the preservation of peace in the World. This occurs because of two reasons. First, healthy commercial relationships between countries which have increased the amount of international trade, resulted in the creation of more interdependency among countries. When states are economically dependent on each other, war or political conflict becomes less likely to occur (WTO 2004, p. 2). Second, people all over the world become better off due to smooth flow of trades which enhances their living standards. Those who are better off, are less willing and likely to fight with each other. Thus, one may argue that the World Trade Organization contributes to peace and stability in the world by providing a mechanism for smooth flow of trade.

5.3.2 Surveillance of World Trade

The WTO also provides a mechanism for the surveillance of world trade. To tackle the surveillance task, the WTO benefits from its policies developed within the organization. One of them is the Trade Policy Review Mechanism (TPRM) which ensures the compliance of members with the rules. The other is Dispute Settlement Body (DSM) that facilitates the resolution of disputes between or among members. These two policies engender a predictable environment for all parties thereby, implants certainty and security in international trade for all traders. Therefore, surveillance of world trade is a service that drives countries to cooperate knowing that all information related to countries' trade policies are freely accessible to all in the reports of the WTO and governments, thus, do not have to spend time and energy on crafting trade policies because they are already determined within the decision-making mechanism of the WTO (WTO 2004, p. 13).

5.3.3 Trade Liberalization

Since the publication of Ricardos famous work Principles of Political Economy and Taxation, a large group of economists argued about the gains from free trade and costs of protection. The core of this part will be to illustrate that trade liberalization is another benefit provided by the World Trade Organization.

Ricardo (1932) argues that the logic of international trade is concealed in the differences between the national resources of individual states. Ricardo (1932) also claims that the wealth of nations can be increased by specialization which can only be achieved by trade based on comparative advantage. If trading countries specialize in the products that they can most efficiently produce and import others that they produce less efficiently, then the wealth of such nations will increase. As a result, it

is claimed that free international trade raises the outputs in a market and therefore the relative income of people increases (Coughlin et al. 1988, pp. 324-325).

It is also claimed that while free trade reduces the costs of living, protectionism raises prices. Since the protected sector is not affected by the competition of foreign rival industries, the prices in the national market would be higher than the prices in the world markets. Because of protection, there will be no market mechanism available to pull the prices down for that particular sector. Therefore, protection may thwart effective functioning of market mechanisms and raise prices artificially (WTO 2004, pp. 5-6).

Furthermore, the protection of an industry requires additional resources from other industries. The output declines and the prices rise in the other sectors. Therefore, protection of a sector brings about price increases not only in the protected sector but also in the unprotected sector. To illustrate this effect, Stolper and Samuelson as cited in Alt and Gilligan (1994, pp. 171-174) settled a debate about the effects of a change in the price of a product. Their theorem argued that a change in the price of a product would increase more than proportionally the return to the factor that is used intensively in the production of that good. In other words, if the price of a product increases by 1 unit, then the price of the factor intensively used in that product would increase by 1.5-2 units. When this model is applied to protectionism, the results may not be surprising, that is, the increase in the prices of commodities in the protected sectors prompt an increase in the returns of factors intensively used in these sectors. However, these increases in the returns to those factors harm the unprotected industry which intensively uses the same factors. As a result, the prices in the unprotected industry escalate. Consequently, the consumption of protected goods and other goods diminish due to price increases.

The costs of protectionism particularly in the US are illustrated in empirical studies conducted by some economists as cited in Coughlin et al., (1988, p. 329). For example, Tarr and Morke estimate an annual cost to the US economy of 12.7 billion dollars due to tariffs and quotas on automobiles, textiles, steel and sugar. Hickok indicates that trade restrictions on clothing, sugar and automobiles caused an extra expenditure of 14 billion dollars in 1984. Hufbeaur et al., claim that the largest losses, 27 billion dollars, are due to the protection of textile and apparel industry in the US.

Another benefit of international free trade is that it provides vast range of goods for the consumers. The range of products in a national market will be enlarged due to imported goods (WTO 2004, p. 7). International competition will also contribute to the enhancement of the quality of goods. Furthermore, firms will make every effort to offer a high quality good or service at a minimum price which implies an increase in the efficiency in the markets (Daniels and Radebaugh 1998, pp. 166-168).

Despite all these benefits of free trade and costs of protectionism, countries still

insist on restricting international trade. Among many arguments (national defence, infant industry, reciprocity), protection of jobs in specific industries is one of the most utilized arguments for restricting trade. However, protection of an industry does not necessarily lead to protection of jobs in that particular industry. For example, when the US limited Japanese car imports in the 1980s, car prices soared by 41% in three years between 1981 and 1984 (WTO 2004, p. 6). Although the purpose was to protect jobs, higher prices caused a decrease in demand which in turn caused more job losses. Therefore, in contrast to what has been expected protectionism have created unemployment resulted from an increase in prices reducing consumer demand for certain goods. This begs the questions as to why protectionist measures still remain. Pareto's (1927, p. 379) answer to such a question is that:

“A protectionist measure provides large benefits to a small number of people, and causes a very great number of consumers a slight loss. This circumstance makes it easier to put a protection measure in practice”.

In other words, protectionist measures remain because their benefits are concentrated but costs are distributed. Similarly, Eichengreen (1989, p. 37) indicates the social forces behind the passage of the highly restrictive 1930 Smooth-Hawley Tariff in the US. He argued that certain sectors of agriculture and industry pressured the government in order to pass this tariff law. Even today restrictive policies still prevail because of small interest groups strong enough to manipulate policies of governments. The restrictions in the sectors of agriculture and textiles in highly developed countries towards less developed countries may be given as an example of achievements of powerful lobbies. As a result, restrictive policies, which benefit a small minority of the population, are enacted because the voice of a smaller group, which has concentrated benefits, is stronger than the masses whose burden is distributed (Alt and Gilligan 1994, pp. 168-171).

As mentioned, trade liberalization is a significant function and purpose of the World Trade Organization. However, despite the gains from trade liberalization and costs of protectionism, trade barriers still remain. The reason for the existence of trade barriers is strong small groups or sectors with disproportional interests. At this point the WTO may play a role in the abolishment of all barriers including the ones concerning textiles and agriculture which are crucial for the economies of less developed countries.

As a consequence, the promotion of peace and stability, surveillance of world trade and trade liberalization are services provided by the World Trade Organization. For the provision of these services, the WTO need to make decisions. In the next part of the chapter, we shall study the decision-making rules and procedures.

5.4 Decision-Making Rules in the WTO

Decision-making is a fundamental activity of an international organization since it allows the creation of legal instruments necessary for the functioning of the organization. As mentioned in chapter two, sovereignty is transferred to organizations where voting rules allow decisions to be taken by majority vote because states may be bound by a decision without their consent. On the other hand, unanimity and consensus necessitate all member countries to reach an agreement on the decisions to be taken. Thus, states retain the sovereign authority to determine the content of the laws where the voting rules only allow for unanimity and consensus. In this part of the chapter, voting rules in the WTO will be discussed together with decision-making procedures and rule creating mechanisms such as amendments, interpretations, waivers, and accession.

5.4.1 Consensus

Decision-making in the WTO follows GATT practices and is based on consensus. The difference between the GATT and the WTO is that while consensus was a practice developed under the GATT, the WTO Agreement has formally and explicitly codified this practice (WTO 1994, Art. 9.1). Similar to GATT, the WTO Agreement requires the matter at issue to be decided by voting where a decision cannot be reached by consensus except as otherwise provided (WTO 1994, Article 9.1). Therefore, consensus is the most significant decision-making procedure in the WTO.

Having specified the place of consensus in the WTO, an answer to the query that 'when consensus is deemed to exist' ought to be provided. Consensus exists where the chairperson of the body in question determines that no member present at the meeting voices an objection. In other words, only a formal objection can block the achievement of consensus (Steinberg 2002, pp. 343-344). Moreover, the difference between consensus and unanimity should also be mentioned. Unanimity requires all members to vote in favor of a proposal for a decision to be binding over them. However, consensus can be achieved when the members who oppose a proposal keep silent. Therefore, while total agreement is necessary to take a unanimous decision, lack of formal objection is sufficient for the formation of consensus.

Concerning decision-making in the WTO there are two areas of consensus decision-making. First, the WTO Agreement specifies certain decisions to be taken by consensus without any alternatives. Among these kind of decisions are amendments to the Dispute Settlement Procedure (WTO 1994, Article 10.8), decisions to be taken by Dispute Settlement Body (DSU 1994, Article 2.4), the granting of a waiver concerning an obligation subject to a transition period (WTO 1994, Article 9.3.(a)), and the addition of an agreement to Annex 4, Plurilateral Trade Agreement (WTO1994,

Article 10.9).

Second, in all other situations, consensus remains an alternative to voting as an accepted practice. Although voting is technically available, an issue is only voted when members fail to establish a consensus. Furthermore, when the General Council convenes as the Dispute Settlement Body or Trade Policy Review Body, it takes decisions by consensus. In addition, subsidiary councils and committees also take decisions by consensus. When these councils and committees cannot reach a decision by consensus, the matter at issue is to be referred to the General Council. The General Council attempts to accomplish consensus and proceeds to a formal vote when consensus proves impossible to achieve (Steinberg 2002, p. 345).

Finally, a period of time, in which the members should achieve consensus, might be considered useful for the effective functioning of the organization. However, no time period is identified except requests for waivers relating to the WTO Agreement (WTO 1994, Article 9.3.(b)) and proposals to amend the WTO Agreement or the Multilateral Trade Agreements in Annex 1 (WTO 1994, Art. 10.1). In these situations, members are given 90 days for consideration. As a result, since the WTO Agreement fails to specify time periods within which consensus is to be established, it might be difficult to determine whether consensus is proven to be impossible. This may be one of the reasons why voting has never occurred in the WTO.

As a consequence, consensus has the most significant place among the decision rules in the WTO. This emphasis on consensus may be because majority voting engenders decisions despite the opposition of some members. Hainsworth (1997, p. 195) argues that if this leads to non-compliance with decisions of the organization, the effectiveness of the organizations would be severely undermined. Therefore, consensus plays a critical role in the decision making process at the WTO.

5.4.2 Voting Rules in The WTO

If consensus becomes impossible to achieve, the matter at issue proceeds to a formal vote. Depending upon the context, decisions are to be taken by simple majority, qualified majority of two thirds or three quarters, and unanimity. First, unanimity is required for amendments relating to general principles. Second, interpretation of provisions, and decisions to grant waivers necessitate a three quarters majority vote. Third, amendments on issues other than general principles, and decisions concerning the accession of a state require two thirds majority vote. Finally, simple majority is sufficient unless it is specified. Therefore, the decisions taken within the WTO can be categorised as amendments, interpretations, waivers, and accession. If these are the decision categories for which the voting rules are defined in the WTO Agreement, then a study of these decisions will reveal the voting rules and decision-making procedures

in the organization.

First of all, the power to amend agreements is a significant power under international law. Under the GATT 1947, unanimity was required to amend the articles on the most favoured nation treatment (Article 1), schedules of concessions (Art. 2), the relation of GATT Agreement to the Havana Charter (Art. 29), and amendments (Art. 30). However, other amendments required two-thirds majority vote of the members (Art. 30.1).

Similarly, under the WTO Agreement, an amendment requires unanimity or two-thirds majority vote. Amendments of the articles on decision making (Art. 9), amendments (Art. 10.2), most favored nation principle for goods, services and TRIPs (GATT 1994, article 1 and 2; GATS 1994, Art. 1; and TRIPs 1994, Article 4) necessitates unanimity. On the other hand, amendments to other provisions of WTO Agreement or of Multilateral Trade Agreements in Annex 1A (Trade in Goods) and Annex 1C (TRIPs) are of a nature that would not alter the rights and obligations of the members and therefore binds all members upon acceptance by two thirds of the members. Moreover, amendments to Parts I, II, and III of GATS bind only the members that have accepted them upon acceptance by two-thirds of the members. However, The Ministerial Conference may decide by three-fourths majority of the members that any member which has not accepted an amendment, which alters rights and obligations, within a period specified by the Ministerial Conference is free to withdraw from the WTO or to remain a member with the consent of the Ministerial Conference (WTO 1994, Art. 10.5). In addition, amendments to Dispute Settlement Understanding and Trade Policy Review Mechanism and to Plurilateral Trade Agreements are to be by consensus (WTO 1994, Articles 10.8 and 10.10).

Hainsworth (1997, p. 208) argues that the voting rules for amendments illustrates that the WTO Agreement encourages the uniformity of the legal obligations by protecting the integrity of the single undertaking. The system to amend the provisions of the WTO Agreement seeks the consent of all members by unanimity or forces members to accept amendments by qualified majority vote through a mechanism that leaves the members, which did not accept the amendment, with the dilemma of withdrawing from the organization or of seeking permission of the Ministerial Council to derogate. As a result, amendment is a kind of rule creation and the voting rules for the amendment of the WTO Agreements are unanimity and a qualified majority of two-thirds.

Second, another power that generates new rules is due to the interpretation of the existing rules. Under the GATT 1947, the voting rules for interpretation of the articles of agreement were not definitively settled. Since it was not specified, the voting support required was simple majority. In contrast, the WTO Agreement defines the requirements to develop binding interpretations in Article 9.2. One requirement is

that, the Ministerial Conference and the General Council have the exclusive authority to adopt interpretations of the agreement. Therefore, the authority to adopt interpretations of the Agreement rests with the political decision making organs rather than with the supervisory bodies in the WTO. This may imply that members are to be involved directly in the generation of new obligation through interpretations. Another requirement is that, adoption of an interpretation requires a three-fourths majority of the members.

Third, the power to interpret provisions of the agreements should not be used in a way that would undermine the amendment provisions in Article 10. Thus, an interpretation should not turn out to be an amendment. As a result, different from GATT, WTO institutionalizes the power to interpret the agreement, and these interpretations a result of a voting process that necessitates three-fourths of votes. Third, the power to grant a waiver is also a power of rule creation. Since a waiver allows for derogations from an international agreement, it creates new rights and obligations for the members. Under the GATT 1947, in order to grant waivers two-third majority of votes representing at least half of the members is required. On the other hand, the WTO Agreement contains more precise provisions on the waivers. The WTO Agreement defines the requirements to grant waivers in article 9.3. First, the Ministerial Conference has the exclusive authority to grant a waiver of an obligation for a member. Second, requests for a waiver are to be submitted to the Ministerial Conference. Third, the Ministerial Conference is to consider the request within 90 days. Fourth, waiver decisions are to be taken by a three-fourth-majority vote and consensus is sought before submitting the matter to a formal vote. Finally, a Ministerial Conference granting a waiver should also cover the circumstances justifying the waiver, the terms and conditions and the date of termination. As a result, the WTO Agreement necessitates three-fourth majority which is harder to attain than the two-third majority requirement of the GATT Agreement. Therefore, it may be claimed that granting waivers under the WTO is more difficult than under the GATT by means of voting rules.

Fourth, a decision concerning the accession is significant because it implies new rights and obligations for the members of an organization. Therefore, accession of a state is another type of rule creation in international organizations. Under the GATT Agreement, two-third majority of votes in the General Council was sufficient for a decision to be taken about the accession of a new member. Similarly, the WTO Agreement requires two-third majority in the General Council. However, the accession process is more complicated in the WTO as defined in Article 12 of the WTO Agreement. First, when a state applies for accession, a working party is to be established by the General Council in order to compile a report covering the terms of accession and allowing the members to make their concerns known. Second, a

consensus is sought before putting the matter to a formal vote. Finally, the agreement may not apply between two members if a member does not consent to accession of the other (WTO 1994, Article 12). Therefore, although it seems that two-third majority vote would be sufficient for the accession of a new member it would be difficult for a state to become a full member unless its accession is based on a consensus.

Consequently, when consensus cannot be achieved the matter is taken to a formal vote in the WTO. However, a formal vote rarely (if ever) happens in the WTO. Consensus remains as the most significant decision-making mechanism. Despite lack of voting in practice, the WTO Agreement specifies the technical details necessary for voting for which the rules change from one context to another. In this part, voting rules and decision-making processes for amendments, interpretations, waivers, and accession have been briefly described. In the next part, decision-making styles in the WTO will be covered.

5.5 Decision-Making Styles in the WTO

While voting rules are clearly specified within its structure, voting has never happened at the WTO. Instead consensus remains as a mechanism to make decisions at the WTO. Therefore, the process of reaching consensus will be discussed in this part. In order to analyze the process of manufacturing consensus within the WTO, the theoretical frame regarding styles of decision-making which was elaborated in chapter three will be used. First, the place of power politics and coercion in the decision-making process will be studied. Second, bargaining between major powers over the decisions to be taken in the WTO will be mentioned. Finally, the Dispute Settlement Mechanism will be reviewed as an instrument of problem solving.

5.5.1 Power and Coercion in the WTO

As previously mentioned, the WTO Agreement states that the matter at issue is to be decided by voting where a decision cannot be arrived by consensus (Article 9). However, while voting has been endorsed, this has never happened at the WTO. Therefore, consensus has been the only option for member states to make decisions. However, consensus-based decision-making is claimed to be detrimental to the interests of developing countries. The main criticism against consensus is due to the fact that it merely involves the absence of objection by any member and it is very difficult for developing countries to oppose what major countries want (Kwa 2003, p. 36). In other words, silence means consent within this mechanism and the cost of breaking the silence for a developing country may be very high. Therefore, consensus is claimed to be achieved without consent of all member countries.

Narlikar (2002, pp. 174-175) mentions three defects of consensus-based decision-making. First, twenty-four countries have no permanent presence in Geneva while the key assumption behind the consensus-based decision-making is the presence of all members in meetings. The ability to object and hold up a decision is meaningless unless all the members are represented. Moreover, among the developing countries that have a diplomatic presence in Geneva, the size of their delegations is too small to attend all meetings, and they cannot be represented in overlapping meetings (Jawara and Kwa 2003, pp. 21-22). Another problem with the consensus-based decision-making is that decisions are taken through open discussions. Developing countries face the dilemma of expressing their objections publicly and suffering its consequences or remaining silent. Unfortunately, they mostly choose the option of remaining silent although the proposals may be against their interests. The last criticism of consensus by Narlikar (2002, pp. 175-176) is the informal small group meetings, so called green room meetings, where developed countries come together to decide on a common position using the difficulty of establishing consensus with the participation of all members as an excuse.

Drahos (2002) and Kwa (2003) analyze this process of manufacturing consensus in more detail. For them, there are three elements in this process what they refer to as the circles of consensus. First, the US and the EU come together to work on a common proposal. Japan and Canada then joins this process. Second, the process is enlarged to include other countries such as South Africa, Chile, and Singapore. This group is also known as the friends of the chair. Finally, some influential countries are also included such as India and Malaysia. After the Seattle Ministerial Conference, the schedules of informal meetings and the list of invitees were announced (Narlikar 2002, p. 176). However, the majority of developing countries still cannot enter into these circles of decision-making.

Circles or the process of achieving consensus illustrates how the proposals appear before important meetings. The decisions are already taken in informal meetings before all the members convene to discuss a matter. Kwa (2003, p. 37) argues that if objections remain strong, the decision goes back into informal consultations: "*The process of manufacturing consensus requires the developed countries to ensure that when the final package is brought to the larger membership, the ground has already been prepared that no matter how unhappy the majority is, no single country will formally reject the package.*"

The perpetually of the informal process is based on the ground of the vast differences in power scale of the various members of the WTO. Potent members simply compel the weaker ones to comply with their terms through a number of strategies. First of all, institutional and procedural deficiencies are used by great powers to exclude developing countries from decision-making circles (Kwa 2003, pp. 37-41).

Secondly, the compliance of developing countries is also ensured by developed countries through stick and carrot policies that is threats of reprisals in case of objection and rewards in return for remaining silent (Jawara and Kwa 2003, pp. 148-159). Finally, it is claimed that the WTO Secretariat is also used as an instrument to coerce developing countries to agree with major powers (Jawara and Kwa 2003, pp. 184-215).

Kwa (2003, p. 37-41) argues that the first instrument utilized by developed countries to coerce developing countries to remain silent during the meetings is the institutional and procedural deficiency of the WTO. The lack of an established procedure casts ambiguity on the decision-making process of the organization. This ambiguity serves the interest of the powerful because there is no rule to deter them from holding informal meetings. Moreover, since informal meetings are called at a short notice, developing countries that are not invited cannot find out the place and time of the meetings and therefore, they get deprived of the right to participate in the decisions taken. Even if they could take part in those meetings, their opposing views would not gain any ground. Furthermore, short decision-making time-frames, especially during the Ministerial Conferences, prevents democratic consultations at the national level. Finally, developing country ministers, who are pulled in to make decisions during the Ministerial Conferences, are unacquainted with the WTO matters which is another disadvantage for developing countries.

Second, 'stick and carrot' policy is another instrument frequently utilized by the powerful to supersede the developing countries. Jawara and Kwa (2003, pp. 151-156) interviewed the delegates of developing countries in Geneva and they cited that developed countries, especially the US, have threatened the Ambassadors in Geneva and campaigned against the ones who opposed American positions, in their capital. They claimed that two Ambassadors had lost their jobs during and after the Doha Ministerial Meeting. However, they kept the identities of the interviewees unrevealed to secure their protection. In addition to threats against ambassadors, threats of withdrawal of preferential trade agreements can also be used as another weapon to pressurize developing countries. For example, the US African Growth and Opportunity Act were used as a carrot for African countries in Doha. Similarly, African Pacific Caribbean Waiver was another carrot in Doha. Thus, powerful states, to coerce developing countries to remain silent or to support their position, exert pressure on representatives of developing countries and implement threats of withdrawal of preferential trade agreements and waivers.

The fact the personnel of the secretariat is predominantly from developed countries, indicates that the Secretariat itself is not unbiased. In fact, employees from developed countries account to 410 of 512, the total number of staff of the Secretariat (Kwa 2003, p. 45). Besides that, until the appointment of Supachai Panitcpakdi, all Director Generals have been from developed countries crystalizing the belief that

the Director Generals from developed countries always tend to support the position of their countries' as exemplified by Mike Moore, from New Zealand, who put great pressure on the delegates and ambassadors before, during and after the Doha meeting (Jawara and Kwa 2003, pp. 195-196). The appointment of Panitcpakdi, which may be seen as a success of developing countries, could not eradicate the structural problem with the Secretariat's bias which perpetuates.

Consequently, all these facts elicit that the consensus based decision-making does yield numerous problems specifically in respect to the benefits of developing countries which are intrinsically undermined by the nature of the consensus decision-making style. Also, this style allows a great space for power politics at the organization and enables the powerful states to coerce the weaker ones.

5.5.2 Case Study: TRIPs and the Developing Countries

In the above part of the role power politics in the WTO is discussed. In this part, TRIPs (Trade Related Intellectual Properties) will be studied as an outcome of WTO decision-making mechanism. This case may illustrate that developing countries could not pursue their interests and give in to the demands of developing countries lobbied by international pharmaceutical companies. Evidently, this agreement has not been to the benefit of developing and lesser-developed countries. The deficiency in the decision-making mechanism of the organization allowed powerful members to coerce the others to agree with their terms and manufacture the consensus necessary for TRIPs.

Uruguay Round (1986-94) introduced intellectual property rules into world trading system for the first time. The result of the negotiations on intellectual properties was Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs). TRIPs Agreement covers areas such as copyright and related rights and industrial property. Copyrights involve the rights of authors of literary and artistic works, the rights of performers, producers and broadcasting organizations. Industrial property rights covers the rights over trademarks, geographical indications, and technological innovations protected by patents (www.wto.org/english/tratop_e/intell_e.htm).

Technological inventions protected by patents especially concern lesser-developed countries. Although the purpose of protection provided for innovations is to ensure a constant means to finance research and development activities, it can be harmful for lesser-developed countries. First, since TRIPs raise the cost of technology transfers, it hinders technological development and innovation in lesser-developed countries. The implication is that it becomes impossible for lesser-developed countries to have access to technology, thereby their reliance on agricultural products to generate revenue will persist. According to the World Banks Projection, six major industrialized countries

revenue will increase by \$40 billion dollars as a result of TRIPs Agreement (Oxfam 2002, p. 211).

Second, a debate on whether patent protection for pharmaceutical products prevents people in lesser-developed countries from having access to medicines has been going. Pharmaceutical companies assert that developing a drug may cost hundreds of millions of dollars, and patents are therefore necessary to ensure sufficient returns to producers becomes an invalid argument when excessive profits of pharmaceutical companies are considered. For example, the pre-profit of GlaxoSmithKline was \$7.7 billion in 2001 (Munn 2004, pp. 260-261). TRIPs Agreement harms especially those countries that are suffering widely from HIV/AIDS. Approximately 90 percent of the worlds HIV/AIDS sufferers are located in Africa. The access of the poor people in Africa to medicines is very limited due to the fact that the cost of medicines is beyond the purchasing ability of national governments in that continent.

The problem with the TRIPs Agreement can also be illustrated by a comparison of medicine prices produced by major companies in developed countries and those countries like Brazil and India who do not recognize patents on medicines and produce generic products. While a usual drug therapy costs \$10,000-\$12,000 per year Indian generic products only costs \$350-\$600 per year (UNDP 2001, p. 106, see also Munn (2004, p. 261)).

As a consequence, one may argue that TRIPs Agreement is only to the advantage of highly developed countries whereas it is very harmful for lesser-developed countries especially for their national economies and public health. The trade relation established by TRIPs Agreement is therefore a zero-sum game which is difficult to quell because of the potential costs involved for lesser-developed countries. Hence, the decisions on TRIPs, which were taken under the auspices of the WTO, fall into the category of power and coercion.

5.5.3 Bargaining in the WTO

Coercion is a frequently used decision-making mechanism in the WTO owing to asymmetrical power relations and structural deficiencies in the organization. In addition to coercion, bargaining is another decision-making style. The difference between these two styles of decision-making is that huge power differences among members generate decisions which are taken as a result of a coercive process whereas bargaining as another process of decision-making requires a symmetry between the powers of members involved in the decision-making process. In other words, consider two parties which have opposing interests over an issue. If one party is much more powerful than the other one, the decision to be taken will be in line with the interests of the powerful one. This is simply because the powerful party would coerce the weaker party to

conform to his/her position. However, none of the parties could coerce the other if they are similar with respect to the power they hold. In this case, the decisions to be taken will be an outcome of bargaining rather than coercion.

Having defined the frame of bargaining processes, three categories of bargaining in the WTO will be illustrated in this part. First, a negotiation between two major powers or two highly developed countries can be referred to as a bargain. Second, the issues between two (groups of) lesser-developed countries, which are led by two major powers, constitute another category of bargaining in the WTO. Third, in order to balance huge power differences, developing countries could come together, and establish bargaining coalitions against highly developed countries.

The trade disputes between the EU and the US can be presented as an example to illustrate the implications of the first category of bargaining in the WTO. The WTO has provided the battlefield for trade wars between the US and the EU. For instance, the US steel industry launched a series of legal actions on anti dumping against EU steel exporters. Subsequently, US government decided to impose tariffs up to 30% on \$8 billion worth of steel imports for three years during the presidency of George W. Bush. In response, the EU together with other steel-exporting countries (Japan, South Korea, China, Brazil, etc.) filed a formal complaint within the WTO against the US. As a result, a WTO panel ruled in favor of complainants and allowed them to reiterate if the US does not lift the tariff (Cheng 2004, p. 2 and Koopman 2004, p. 2). Moreover, the EU and the US are in conflict due to US practice in subsidizing its exporters through partial tax exemption under Foreign Sales Corporation. Another matter of dispute is over genetically modified food products and beef importing policies (Beams 1999, p.3). Whereas EU is more concerned with health standards, the US claims that the EU is acting against the 'free trade' principle of the WTO. Finally, both the US and the EU denounce each other for subsidizing agriculture creating another dispute on their trade policies (Koopman 2004, p. 2 and USDA 1999, p. 28). As a consequence, the EU and the US have divergent interests but none of them can coerce the other accept its stand therefore these major powers basically resort to bargaining to reach a decision.

Another category of bargaining can be over an issue between two (groups of) lesser-developed countries which are led or supported by major powers. For example, Banana Dispute may be considered as a conflict between two major powers, the EU and the US. It may also be deemed as a conflict between two groups of lesser-developed countries, Latin America vs. previous colonies of EU members. In fact, the EU consumes 4 million tones of bananas per annum and only 20% of this amount is produced in the Union. The remainder is imported from African Caribbean and Pacific (ACP) and Latin American countries (Dickson 2002, p. 1). This dispute arose because of EU quota and licensing regime which favored ACP countries. Latin

American countries resisted the new regime by bringing the matter to the WTO. In this case, the US actively supported Latin American states and the EU backed ACP group of states. Therefore, this dispute became a bargain between the US and the EU within the auspices of the WTO. Details of this case will be given in the next part, problem solving and coordination in the WTO.

Lesser developed countries have come together at many times to resist developed countries during the negotiations in the WTO Ministerial Meetings. Examples of such coalitions include the African Group, the African Caribbean Pacific (ACP) Group, the Group of Least Developed Countries (LDC), the Small and Vulnerable Economies (SVE), and the Like Minded Group (LMG). These were groups that adapted their agenda according to the needs of the day before and during the negotiations (Narlikar and Tussie 2003, p. 5). These coalitions of lesser-developed countries attempted to bring their concerns about international trade to the agenda of the WTO. However, such coalitions mostly failed due to the pressure of developed countries. Bargaining coalitions of lesser-developed countries were, however, stronger in Cancun Ministerial and therefore will be studied in detail.

5.5.4 Case Study: Bargaining Coalitions of Lesser Developed Countries in Cancun

The study of Narlikar and Tussie (2003) on Bargaining Coalitions in Cancun Ministerial Meeting illustrates that there are several new coalitions emerged during the Ministerial such as the Core Group of developing countries opposing the Singapore issues, the coalition on cotton, the coalition on Strategic Products and Special Safeguard Mechanism, and the G22 on agriculture.

The Core Group of developing countries included Bangladesh, Cuba, Egypt, India, Indonesia, Kenya, Malaysia, Nigeria, Pakistan, Venezuela, Zambia and Zimbabwe (Narlikar and Tussie 2003, p. 7). The Core Group submitted a joint statement against the Singapore issues; especially supported by the EU, which covers investment, transparency in government procurement, trade facilitation and competition policies (Madeley 2003, p. 7). As a response to this resistance from developing countries the EU Trade Commissioner, Pascal Lamy, agreed that investment and competition could be dropped but the other two issues would then proceed to negotiations. However, consensus on new issues could not be achieved and it was one of the reasons for the collapse of the Cancun Ministerial. Despite that, Core Group of developing countries has successfully resisted against the Singapore issues of the EU and proven that they can avoid coercive policies of developed countries when they act together.

Another coalition of lesser-developed countries in the Cancun Ministerial Meeting was the group of West and Central African Countries which comprised four members:

Mali, Benin, Chad and Burkina Faso. They proposed complete abolition of cotton subsidies and also demanded financial compensation for lesser-developed countries until the subsidies were phased-out (Narlikar and Tussie 2003, p. 8). Moreover, the coalition on Strategic Products and Safeguard Mechanism swung into action in Cancun. Among its members were Barbados, Dominican Republic, Honduras, Indonesia, Jamaica, Kenya, Mongolia, Nicaragua, Nigeria, Pakistan, Panama, Peru, Philippines, Trinidad & Tobago, Turkey, Uganda, Venezuela, Zambia, Zimbabwe, Tanzania, and Ecuador. The group advocated that lesser-developed countries should be given the right to designate certain strategic products that would not be subject to tariff reductions. These two coalitions illustrate the attempt of lesser-developed countries to protect their domestic markets and therefore indicate that lesser-developed countries also started to use the WTO mechanism to bring their interest forward.

Finally, the fourth coalition of lesser-developed countries in Cancun was G22. This coalition has come into existence in response to the agriculture policies of developed countries, especially the EU and the US. Against the joint proposal of the US and the EU, 20 developing countries drafted an alternative proposal. The group comprised 20 members including Argentina, Bolivia, Brazil, Chile, China, Colombia, Costa Rica, Cuba, Ecuador, El Salvador, Guatemala, India, Mexico, Pakistan, Paraguay, Peru, Philippines, South Africa, Thailand and Venezuela. When Egypt and Kenya joined the group, it acquired the name of G22. This coalition has attracted a great deal of public attention because it contained 69% of the world's farmers and represented more than half of the world's population (Narlikar and Tussie 2003, pp. 9-11). This group followed a proactive policy by submitting a proposal on agriculture which called for an end to export subsidies. Their proposal also urged a formula for tariff cuts that requires developed countries to sacrifice more than developing countries (Madeley 2003, p. 5).

Consequently, the coalitions of lesser-developed countries proved that lesser-developed countries can stop developed countries imposing demands against their interests provided that they act together.

5.5.5 Problem Solving in the WTO

As mentioned before in chapter three, problem solving involves resolution of conflicts within an institution through an adjudication mechanism with reference to common norms, principles, values and rules. When this frame is adopted to the WTO, its dispute settlement mechanism is to be studied. Therefore, the Dispute Settlement Mechanism in the GATT and the WTO will be focused upon in this part. Subsequently, the dispute over the EU Banana Regime will be summarized as a case of dispute settlement in the WTO.

The GATT dispute settlement system was based on consensus decision-making of all members which implied that the consent of the defendant was also required. In other words, a complainant could not appeal to the dispute settlement system under the GATT unless the country, which is claimed to act against the agreement, allows him/her to utilise the system (Delich 2002, p. 71). Furthermore, the GATT legal system was also limited by means of sanctions to be implied when legal violations were found. The GATT dispute settlement system could only issue a general recommendation calling the defendant country to comply with the GATT agreements. The complaining government could request authorization to retaliate but the defendant could veto such requests due to consensus decision-making (Hudec 2002, p. 82). A structural reform was therefore necessary in the GATT dispute settlement system so the WTO Dispute Settlement Mechanism removed the consensus requirement at the key stages of the process. Concerning the establishment of a panel of experts, the adoption of its reports, and the adoption of an Appellate Body report, only a negative consensus can stop the process which means agreement of all members not to proceed. In other words, the dispute procedure move forward automatically which in theory makes it more difficult for developed countries to stop lesser-developed countries to bring their complaints to the Dispute Settlement Mechanism of the WTO.

Another improvement concerning the WTO Dispute Settlement Mechanism in comparison to the GATT is about the enforcement of a binding ruling. Some steps were taken to make the recommendation of the Dispute Settlement Body more effective. There is now a time limit for compliance from 6 to 15 months. During that period, the illegal measure is under periodic review which creates a pressure for compliance (Hudec 2002, p. 83) Moreover, the defendant does not have the power to veto retaliation requests of the complainant party. This ensures that retaliation will be authorized when a member country insists on non-compliance (Hudec 2002, p. 84).

Despite these reforms in the dispute settlement system, it is still argued that the Dispute Settlement Mechanism is less beneficial to developing countries than the theory suggests. Jawara and Kwa (2003, pp. 6-7) claim that the enforcement of Dispute Settlement Mechanism decisions through retaliatory trade sanctions creates a serious asymmetry. Trade sanctions imposed by lesser-developed countries against developed countries would be meaningless compared to sanctions implied by developed countries against lesser-developed countries. Therefore, there is little incentive for lesser-developed countries to incur the cost of utilizing the Dispute Settlement Mechanism. In addition, there can be a political price to be paid by lesser-developed countries due to the displeasure of developed countries from their use of dispute settlement system. As illustrated in the table below, Dispute Settlement is more frequently used by developed countries rather than developing countries despite the fact that the utilization of the system by the developing countries have increased under the WTO

compared to the GATT.

Table 5.2: Number of Dispute Settlement Cases 1995-2000

Complaint Against/By	Industrial Countries	Developing Countries	Total Complaints	Share of Total Cases
Industrial Countries	89	35	124	60%
Developing Countries	65	18	83	40%
Total Complaints	154	53	207	100%
Share of Total Cases	74%	26%		
Share of Cases under GATT	86%	14%		

WTO and IMF Statistics, see also Delich 2002, pp. 76.

Having mentioned the main characteristics of dispute settlement system with respect to the GATT and the WTO, rules and procedures governing the settlement of disputes in the WTO will be summarized in the next section.

The WTO Dispute Settlement System

The Dispute Settlement Body (DSB), panel of experts, and Appellate Body need to be explained in order to ascertain how decisions are taken in the WTO dispute settlement system.

The Dispute Settlement Body consists of all WTO members. The Understanding on the Settlement of Disputes (DSU 1994, Art. 2) states that it *“has the authority to establish panels, adopt panel and Appellate Body reports, maintain surveillance of implementation of rulings and recommendations, and authorize suspension of concessions and other obligations under the covered agreements”*. Therefore, it has the ultimate authority over the decisions under the dispute settlement system.

In case of a dispute, a member should first request bilateral consultations in order to find a solution through negotiations. The member to which the request is made should reply to the request within 10 days. If the member does not respond within 10 days or does not enter into consultations within a period of 30 days, then the member that requested the holding of consultations may proceed directly to request the establishment of a panel (DSU 1994, Article 4.3). The members should settle the dispute within 60 days after request for consultations. If not, the complaining party may request the establishment of a panel (DSU 1994, Article 4.7). Therefore, if the dispute cannot be resolved through negotiation between the parties involved, then the next step in the dispute settlement procedure is the establishment of a panel.

A panel is usually composed of three panelists (DSU 1994, Article 8.5) who are well-qualified governmental and/or non-governmental individuals (DSU 1994, Article

8.1). The function of a panel is to make an objective assessment of the facts of the case and the applicability of and conformity with the agreements (DSU 1994, Article 11). DSB considers the report of panels while drafting its recommendation or ruling in accordance with the covered agreements. Finally, the report of a panel is adopted at a DSB meeting unless a party to the dispute formally notifies the DSB of its decision to appeal or the DSB decides by consensus not to adopt the report (DSU 1994, Article 16.4). Before the adoption of panel report, a party to the dispute may decide to appeal. In such a case, the Appellate Body hears appeals from panel cases. The Appellate Body is composed of seven persons serving in rotation and three of whom serve on any case (DSU 1994, Article 17.1). An Appellate Body report is adopted by the DSB and unconditionally accepted by the parties to the dispute unless the DSB decides by consensus not to adopt the Appellate Body report (DSU 1994, Article 17.14). Where a panel or the Appellate Body concludes that a measure is inconsistent with a covered agreement, it recommends that the member concerned bring the measure into conformity with that agreement (DSU 1994, Article 19).

Dispute settlement system also have measures to ensure prompt compliance with recommendations or rulings of the DSB which is essential in order to ensure effective resolution of disputes to the benefit of all members (DSU 1994, Article 21.1). At a DSB meeting held within 30 days after the date of adoption of the panel or Appellate Body report, the member concerned informs the DSB of its intentions in respect of implementation of the recommendations and rulings of the DSB. If it is impractical to comply immediately with the recommendations and rulings, the member concerned is allowed to have a reasonable time period (DSU 1994, Article 21.3).

If the recommendations and rulings are not implemented within a reasonable time period, compensation and suspension of concessions or other obligations are also available within the dispute settlement system (DSU 1994, Article 22.1). The suspension of concessions is defined at three steps in Understanding on Dispute Settlement: The complaining party should first seek to suspend concessions with respect to the same sector in which the panel or Appellate Body has found a violation. If that party considers that it is not practical to suspend concessions with respect to same sector, it suspends concessions in other sectors under the same agreements. Finally, if that party considers it is not practical to suspend concessions under the same agreement, it may seek to suspend concessions under another agreement (DSU 1994, Article 22.3). Therefore, suspension of concessions does not have to be limited to the sector or agreement where a violation is found, but can also include other sectors and agreements.

Consequently, the articles of "Understanding on Rules and Procedures Governing the Settlement of Disputes" is summarized above in order to describe the decision-making process in the WTO dispute settlement system. At this point, a case study can

be useful to illustrate the implementation of these rules and the working mechanism of the system.

5.5.6 Case Study: The EU Banana Regime

Members of the EU used to operate different controls over the banana market before 1993. However, the creation of a single market required that different national policies to be replaced by a common policy. Therefore, the Union established a new banana regime which is to be implemented by all members.

The 1993 Banana Regime established a Common Market Organization for bananas which brought about a quota and licensing system. The purpose of this system was to create an incentive for companies to import from ACP bananas with higher costs (Dickson 2002, p. 2). However, a coalition of Latin American countries -Colombia, Costa Rica, Guatemala, Nicaragua, and Venezuela- challenged this new regime in the GATT. They first filed a complaint against the national regimes of the EU members. The GATT found that the ACP preferences violated first article of the GATT Agreement about Most Favored Nation principle. Subsequently, another complaint was filed by the same coalition against Common Market Organization, in 1994. In both cases, GATT panels ruled against the EU, but GATT rulings could not be adopted because the EU and the ACP vetoed their adoption due to consensus decision-making in the GATT dispute settlement system. Nevertheless, the EU concluded a Framework Agreement with four of the five complainants -except Guatemala- as an attempt to appease Latin Americans. However, the Framework Agreement provided benefits only for certain Latin American producers that had filed complaints in the GATT (Smith 2003, pp. 6-10).

Other Latin American countries -Guatemala, Ecuador, Honduras, Mexico, and Panama- filed another case against the EU Banana Regime, this time under the WTO. In addition to these countries, two US based trans-national corporations, Chiquita and Dole Foods, lobbied for their interests in these Latin American countries and achieved to pull the US into the dispute. After its accession into the WTO, Ecuador also joined this coalition against the EU. Moreover, the US coerced Costa Rica and Colombia to challenge the Framework Agreement by threatening them with trade sanctions. Therefore, they had to support the coalition backed by the US. Concerning this case, the WTO issued its report in May 1997. The panel report adopted ruled against the licensing system and the different treatment of bananas from the Framework Agreement countries and other Latin American producers. The EU appealed against the rulings. However, the appeal was unsuccessful and EU was obliged to revise the Banana Regime by January 1, 1999 (Dickson 2002, pp. 2-3, Hudec 2002, pp. 87-88).

The revised Banana Regime did not satisfy the demands of the US and Ecuador.

They filed a new complaint in the WTO. In April 1999 the DSB ruled against the EU and authorized the US to impose trade retaliations. In May 2000, Ecuador was also permitted to impose sanctions against EU exports. This was very important because it was the first time that a developing country won a case against a developed country in the WTO. However, it was not practical and effective to impose trade sanctions in the sector and agreement concerning trade in goods. That is why Ecuador requested to suspend concessions covered by other agreements, particularly the TRIPs, in accordance with Article 22.3 (DSU 1994). The request of Ecuador was accepted by the WTO despite attempts of the EU to stop her in the WTO. This case, therefore, illustrates the victory of a developing country against a developed country (Smith 2003, pp. 13-18).

Finally, the EU offered a Banana Regime that satisfies the demands of the US and Ecuador. After a transitional period of quota and tariffs, the EU Banana Regime will become tariff only by January 1, 2006, that is, a regime acceptable in accordance with the principles of the WTO (Dickson 2002, pp. 5-6). Consequently, this case shows how the dispute settlement system of the WTO and the GATT works as a case of problem solving which also involves some characteristics of bargaining and coercion as styles of decision-making.

Chapter 6

Conclusion

In Chapter 2, we dealt with the theory of public goods which was first confined to the frame of nation-state. Eventually studies on the international dimension of the subject have become larger in scale. These studies associated the provision of public goods with international cooperation. Furthermore, the desire to supply international public goods is basically related to the formation of international organizations. In other words, similar to public goods establishing the basis of legitimacy for the existence of state, global public goods generate the motivation behind international cooperation and international organizations.

In Chapter 3, firstly, unanimity rule is explained with reference to the principle of sovereign equality. Secondly, after explaining some technical concepts about majority voting rules such as voting paradox, logrolling, and median voting; the evolution of majority rule in international organizations is briefly summarized. Furthermore, weighted voting and qualified voting with respect to their application is explained as sophisticated versions of majority voting rule.

The focus of Chapter 4 is on the styles of decision-making styles. In order to categorize decision-making styles, the structure in the studies of Scharpf (1988, 1990) and Olsen et al. (1982) has been followed which argue about three different styles of decision-making: power and coercion (confrontation), bargaining, and problem solving. Furthermore, it has been argued above that some particular games correspond to three styles of decision-making. In fact, the working mechanism of 'power and coercion' is very similar to 'zero-sum game', 'bargaining' can be analyzed, as 'the battle of the sexes' and 'problem solving' is a kind of 'coordination game'.

Then, in the second part of the chapter examples have been given from international organizations illustrating three styles together with the corresponding games. Firstly, some instances of great power diplomacy have been utilized in order to exemplify power and coercion in the League of Nations and in the United Nations. Secondly, the negotiations over Cyprus has analyzed as a case of bargaining. And lastly, the coordination of European Union is used as an example of problem solving.

In Chapter 5, how the distinct theories on decision-making could be made applicable into the WTO decision-making process has been correspondingly demonstrated. The question, why nations had decided to cooperate and for that purpose established an organization to deal with international trade, is entackled. The imperatives for countries to integrate their efforts was to establish a supreme authority able to ensure provision of some international public goods, such as; promotion of peace and stability, surveillance of world trade, and mainly liberalization of international trade.

This chapter also highlighted the various features of decision-making rules and procedures utilized by GATT and the WTO. It was explicitly demonstrated that despite countless reforms, the WTO decision-making mechanism is still based on consensus which is a method easily manipulated by economically powerful members, thereby, bestowing those countries a mightier tool to dominate the WTO system and lead the less powerful ones into compliance.

Three sub-categories of decision-making styles are also discussed in this chapter focusing on the significance of power politics and bargain style as a device utilized by grand countries to achieve consensus. Other than these, members may refer to common norms, values and principles of organization in order to settle disputes among them or to retreat to dispute settlement system within the organization. to clarify these styles in the WTO, three case studies are included: TRIPs for power politics, bargaining coalitions in the Cancun for bargaining, and the EU Banana Regime for problem solving.

Consequently, the scope of thesis is confined to the parameters of decision-making rules and styles favored by the WTO. Despite all criticism directed towards the WTO decision-making mechanism, no proposals to initiate any reforms have been presented. Further studies may be conducted so as to yield such proposals which may contribute to the restructuring of the decision-making mechanism of the WTO.

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