CHAPTER 20

WTO MEMBERSHIP

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Introduction

Those who created the post–World War II trade regime sought to establish rules that would prevent the kind of breakdown of the economic order that occurred in the 1930s. Secretary of State Cordell Hull of the United States led in the commitment to establishing free trade as the basis for peaceful international relations. The General Agreement on Tariffs and Trade (GATT), adopted in 1947, emerged as the compromise outcome to reduce trade barriers and promote growth of world trade.[1] The refusal of the United Kingdom to end the imperial preference system and the reluctance of the US Congress to accept ambitious institutional commitments for the negotiated International Trade Organization resulted in the GATT serving as the core institution that would govern trade for the next forty-eight years. Despite its origin as a temporary arrangement, the GATT oversaw an era of rapidly expanding trade. It evolved as an institution by means of members negotiating more tariff reductions and new rules in trade rounds while using panels of diplomats in a form of dispute settlement process that helped avoid trade wars when disagreements arose among members. The creation of the World Trade Organization (WTO) in 1995 further broadened the scope of agreement and increased the strength of the existing, legalized enforcement process.

Whether the trade regime is responsible for the phenomenal postwar growth of trade is hotly debated, as world trade volume and trade as a percent of country's gross domestic product (GDP), a standard measure of a country's trade openness, has grown steadily among both members and nonmembers (see Figure 20.1). Nevertheless, the GATT/WTO is widely credited with helping states to expand trade. Members choose to resolve major trade disputes through the regime's adjudication process and have largely complied with its rulings. In line with the motivation of leaders at the founding of the institution, major world economic downturns have not led to rampant protectionism or to a breakdown of the rules.

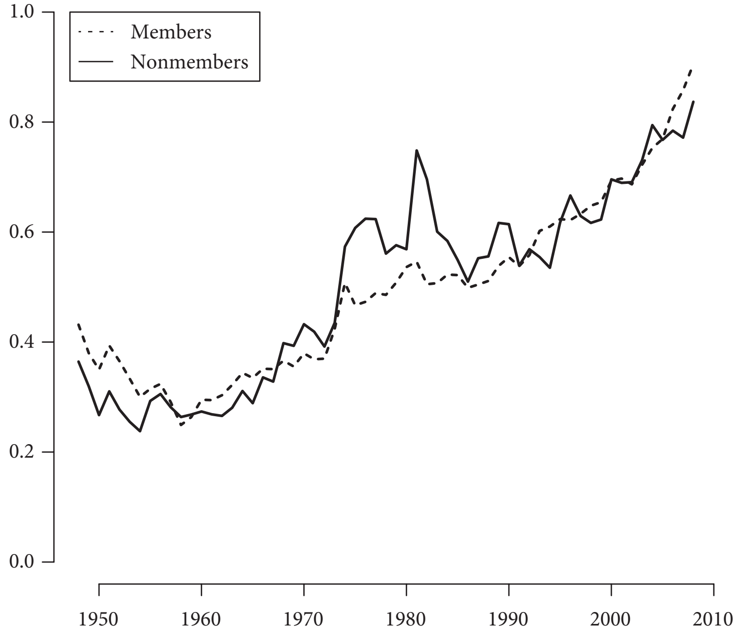

FIG. 20.1 Trade Openness and Membership.*

*Mean value of trade openness (imports plus exports as percent of GDP) for GATT/WTO members and all other countries. In any given year, members and nonmembers enjoy similar levels of trade openness.

As states manage incentives to pursue mercantilist policies against broader gains from free trade, power and interest underlie their support of the regime. But members' uncertainty about future preferences and economic circumstances has led them to adopt an institutional design with flexibility for escape from commitments, discretionary terms over new member accession, and decentralized enforcement. Far from high delegation to a supranational organization, the GATT/WTO remains a largely member-driven organization. Therefore it is critical to understand the conditions that explain membership. What are the gains from membership that lead countries to join? Membership in the regime has grown from 23 to 159, from 23 percent of all countries in 1948 to 80 percent of all countries in 2012 (see Figure 20.2). The Ministerial Conference in December 2013 approved the accession of Yemen to become the 160th member, and twenty-three other countries are currently in negotiations to join. Clearly states see advantages from membership such that most seek entry to the organization. At the same time, this member expansion presents problems as the increasingly heterogeneous preferences of the broad membership prevent agreement, as seen in the latest trade negotiating round. Why were major powers willing to grant the expanded membership that brought forth this scenario?

This chapter begins with a brief overview of the literature on why states benefit from the trade regime. The theories about regime formation and empirical research

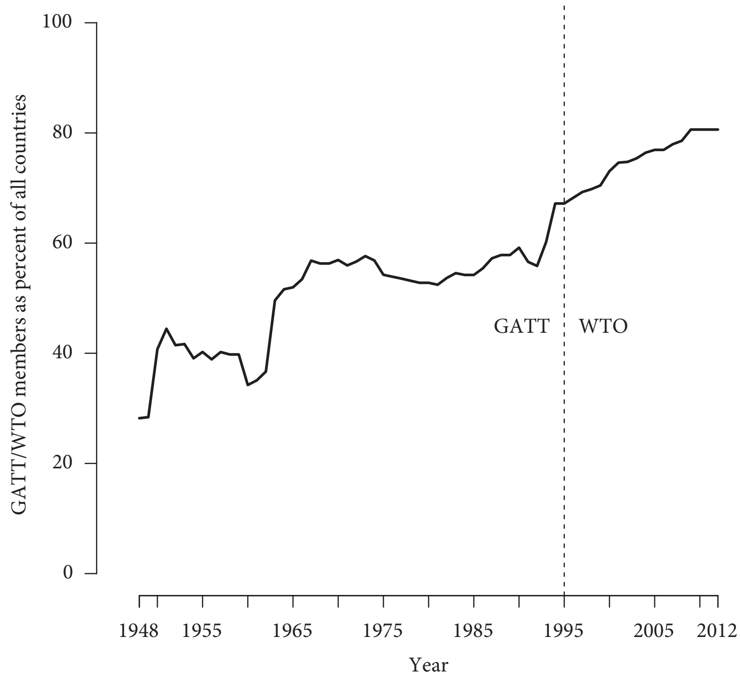

FIG. 20.2 GATT/WTO Membership Growth: Expanding Membership of the Trade Regime.*

*Growing share of countries that have become members. "Member" is defined as any state that has completed formal accession to GATT/WTO.

on the effects of membership provide insights into the motivation of states to join the trade regime. Next we examine the process of joining the regime and explain selection patterns that result from both the decisions of countries to apply and decisions of the membership to accept new members. The final section summarizes the discussion.

The Benefits of Regime Membership

Several explanations—each placing a different emphasis on the role of power, preferences, institutions, and social purpose—have been given for the establishment and evolution of the multilateral regime to support free trade. These theories also highlight competing reasons for states to join the regime. One view is that states simply join as an act that follows the lead of the dominant state. Alternatively, states join because they need the regime as a tool for coordinating behavior or share principled beliefs with other members.

Why Form a Multilateral Trade Regime?

When the state system is characterized by a highly asymmetrical distribution of power, the dominant hegemon will support free trade that will enhance its own income and power over other states (Krasner 1976). Hegemonic states build a framework of rules to maintain stable order. Kindleberger (1986) blamed the US failure to ascend to this role in the 1930s as the source of breakdown in the economic order. When the United States did rise to the leadership position and shape the postwar trading regime, it closely adapted the rules to its interests. For industries in which the United States sought exceptions to free trade—such as in agriculture—liberalization demands were lenient. Further, exceptions to free trade were crafted around US domestic laws. As the US economic structure shifted to become more service and technology based in the 1970s, it pushed to expand the regime's scope to include service trade and intellectual property rights, beginning in the Tokyo Round. Some see the WTO as an "American creation" (Gilpin 2001, 222). In his book on hierarchy in international relations, Lake (2009) emphasizes the contractual relationship of the United States with subordinate states and offers membership in the GATT/WTO as an example of how the United States exercises authority over other states without the costs of coercive enforcement of its interests. The mechanism by which the United States exerts this power is identified by Kim (2010) as the product-by-product bargaining protocol that gives advantage to market size. The informal trade round negotiation process has allowed the United States to shape rule making on an ongoing basis through ad hoc threats of exclusion or exit that would leave other states worse off if they lost access to the large US market (Steinberg 2002; Stone 2011). To the extent that the rules reflect US interests, delegation to a legal enforcement mechanism allows the United States to avoid the hostility provoked by unilateral market access demands.

While none deny the influential role of the United States as first among equals in the formation and evolution of the trade regime, others contend that US power alone is insufficient to drive the multilateral trade regime. Even as US economic dominance declined in the 1970s, the trade regime was sustained. This outcome arose from the "stickiness" of the trade rules within an institution—once created, the institution persisted—and also from the functional demand for the regime. From the perspective of institutional theories, the GATT acts as a central bargaining forum that promotes more efficient communication among states with repeated interactions. It supports linkage and punishment strategies to uphold commitments to free trade (Keohane 1982; Martin 1992; Morrow 1994). One prominent explanation of the trade regime contends that large states would be tempted to set unilateral, high tariffs in an effort to manipulate terms of trade to their own advantage. The costs of such protective measures are forced onto foreign exporters and consumers. Based on the core principles of reciprocity and nondiscrimination, multilateral agreement allows states to escape this "prisoner's dilemma" and to achieve greater welfare benefits through a low tariff equilibrium (Johnson 1953–1954; Bagwell and Staiger 1999). This logic extends beyond the largest states to also explain the behavior of a wide range of countries (Broda, Limao, and Weinstein 2008).

These theories present the WTO as a self-enforcing set of rules based on state interest. The implication is that all states will gain from regime membership.

Solving the prisoner's dilemma at the international level, however, does not eliminate domestic pressures for protection. Even as the supposed leader of the move to free trade, the United States resisted liberalization for many of the tariff lines that were politically too sensitive to cut (Goldstein and Gulotty 2014). Tariff reductions have generally occurred through slow reduction of rates over repeated rounds of negotiations, with exceptions leaving high barriers to protect sensitive sectors such as agriculture and textiles. Herein lies a second rationale for joining the regime. Leaders who see gains from free trade can use the trade rules to overcome domestic resistance. Governments face a time inconsistency problem whereby short-term lobbying and electoral pressures may induce protection that would harm long-term prospects for economic growth and for free trade that benefits diffuse consumers (Staiger and Tabellini 1999; Maggi and Rodriquez-Clare 1998). Issue linkage in the form of reciprocity, and package deals for broad trade reform, mobilize exporters who benefit from reciprocity and help to build domestic coalitions in support of liberalization (Gilligan 1997; Davis 2003). Through design of flexible rules, it is possible to lower tariffs without going beyond what is sustainable at home. Members address their uncertainties about preferences and future trade shocks through use of escape clauses and tolerance of limited noncompliance as defined by system rules (Rosendorff and Milner 2001; Rosendorff 2005).

Legal obligations also create constraints against protection. Jackson (1997) portrays the trade regime as changing the nature of the interaction among states from power politics toward the rule of law. The relatively high levels of precision in agreements and use of third-party dispute settlement make the trade regime stand out as having greater legalization than other institutions (Goldstein et al. 2000). This legitimacy has constrained even the most powerful states—including the United States—by making unilateral trade threats less effective (Schoppa 1997; Pelc 2010). Rule of law is upheld not only by the empowerment of specific configurations of domestic actors, but also by shared norms. The normative basis to the regime has allowed it to withstand many challenges and to evolve so that even as rules carved out exceptions to free trade—due to the kinds of political exigencies noted above—members' shared purpose to pursue liberal trade supported continuity of the regime (Ruggie 1982). The establishment of the WTO in 1995 was the next step toward delegation by members and toward a centralized trade regime with a more robust legal enforcement mechanism and a new trade-policy review process for peer monitoring.

Do Members Enjoy Higher Trade Levels?

Andrew Rose (2004) was the first to empirically test the proposition that the GATT facilitated postwar trade growth. Analyzing trade at the dyadic level and using a gravity model to control for factors that affect states' natural affinities to trade, he surprisingly found that pairs of states that are members of the GATT/WTO did not seem to enjoy higher trade than pairs of nonmember states.[2] He concluded that member states do not enjoy significant trade increases, with the implication that the trade regime may not actually fulfill its basic goal to increase trade for members.

Judith Goldstein, Douglas Rivers, and Michael Tomz (2007) highlight the importance of the GATT's de facto practice that granted most-favored nation (MFN) benefits to entire categories of nonmember states—specifically, colonies and former colonies—*as if* they were regime members. In contrast to Rose's focus on formal members, Goldstein, Rivers and Tomz argue that it is more appropriate to compare regime "participants"—*both* formal members *and* states that received MFN multilateral trade benefits—to "non-participants," states that were nonmembers without MFN benefits. Re-running Rose's analysis using participation (instead of formal membership) and focusing on a country's exports within a directed dyad (instead of nondirected, average dyadic trade), they found that regime participants *do* enjoy higher levels of trade than do nonparticipants. They attribute a causal mechanism—a state's access to export markets at MFN tariff rates—to tie membership to trade levels, moving beyond Rose's focus on the association between formal membership and trade levels.

Allee and Scalera (2012) posit an alternative causal mechanism—a state's own level of tariff liberalization—as the channel through which the GATT affects trade levels. States that significantly liberalize tariffs upon joining the regime—determined by their type of accession process—enjoy increased levels of trade compared to states that join the institution without significant trade-policy liberalization.

The many studies debating trade regime effects on trade use slightly different methods and units of analysis. Rose uses nondirected dyads (where the dependent variable is the average of *both* states' bilateral trade), but subsequent research has largely used directed dyads to model each state's individual bilateral trade level. Similarly, Rose uses year fixed effects, while other studies use year *and* dyad fixed effects. Subramanian and Wei (2007, 158) argue that dyadic fixed effects capture the multilateral resistance of each country—a key assumption of the gravity model—and therefore including dyadic fixed effects provides more accurate estimates. Imai and Kim (2013), who examine the debate with specific attention to fixed effects methodology, confirm that empirical results are highly model dependent. Their analysis finds that, as a result of greater across-country than across-year variation in membership, dyadic fixed effect specifications yield more volatile results of WTO membership effect than do year fixed effect specifications. That results are highly model dependent means that substantive researchers must use theory to justify the assumptions underlying their chosen specification.

There is some consensus that the effects of membership and participation on trade are greatest for developed countries and for trade in manufactured products. Subramanian and Wei (2007) decompose the effects on imports versus exports, level of country development, and country trade profile; they find that significant trade benefits accrue to industrial countries. Dutt, Mihov, and Van-Zandt (2011) find that the WTO influences extensive product margin of trade rather than intensive margin: members increase the goods that they trade with each other rather than trading higher volumes of the same goods. Helpman, Melitz, and Rubinstein (2008) show that nearly 50 percent of possible dyadic ties are lost if ties between states that do not trade with each other at all are excluded from analysis. However, studies that incorporate these new insights into a reexamination of the debate continue to arrive at varying conclusions. For example, Liu (2009) and Chang and Lee (2011) find WTO membership associated with large boosts to bilateral trade, while Eicher and Henn (2011) and Barigozzi, Fagiolo, and Mangioni (2011) find little effect of membership on trade. Using a network model of trade, De Benedictis and Tajoli (2011) find that WTO members are closer trading partners than are non-WTO members.

Beyond direct linkages between membership and trade, authors focus on how trade benefits accrue to developed and developing country trade regime members. Gowa and Kim (2005) show that trade benefits accrued to the five largest member states at the time of GATT establishment: the United States, Great Britain, Germany, France, and Canada. While many studies emphasize benefits of the regime accruing to developed countries, others emphasize benefits for developing countries. Developing country members who appear to benefit most from the regime are those who have alliances such that the trade rules reinforce concessions granted to them on the basis of a strong political relationship (Gowa 2010). In contrast, Carnegie (2014) emphasizes the value of the regime to those states that have *weak* political ties, because these states need the regime as protection against having trade interests held up in exchange for foreign policy concessions.

Other scholars analyze whether the trade regime provides stability of trade as distinct from the volume of trade. This line of reasoning follows closely the logic within the GATT that even a high fixed tariff is to be preferred over discretionary administrative measures. Mansfield and Reinhardt (2008) emphasize *sustainable* trade flows. They propose that members may seek lower trade volatility rather than higher trade levels and show that membership in the GATT/WTO lowers trade-policy volatility and trade-export volatility. Their finding counters Rose (2005), who finds no significant difference in trade volatility of members and nonmembers. As there is no standard method to calculate trade volatility, Mansfield and Reinhardt attribute the conflicting findings to the differences in how their study operationalizes the dependent variable. They apply four separate measures of annual trade volatility, in contrast to Rose's use of one measure based on a country's standard deviation of trade over twenty-five-year panels. Dreher and Voigt (2011) examine the impact of membership in international organizations on country risk ratings and find that the GATT/WTO has a statistically significant impact on lowering perceived risk by investors. In summary, membership—both formal and informal—is often used to identify the regime's effects on trade flows, but the literature has not reached a consensus. There is need for further research to reach more conclusive answers to this basic question.

Do Members Benefit from Multilateral Enforcement?

A strong legal framework that underlies third-party dispute settlement is a central benefit of membership. All members of the GATT/WTO have standing to file complaints under the Dispute Settlement Understanding when they allege that another member has a policy in violation of the agreement. The process begins with the filing of a formal complaint, which initiates a consultation period. If settlement is not achieved through consultation, the complainant may request a panel of third parties to rule on the legal status of the challenged policy. This process has remained largely consistent across both the GATT and WTO, although reforms of the Uruguay Round Agreements codified a more robust process. Key reforms included the automatic right to panel and the introduction of an appellate body of standing judges to hear appeals as an additional legal layer. The dispute process offers enforcement authority that is important to resolve the specific disputes and to deter future violations.

Within the set of cases filed under the dispute settlement process, compliance with consultative agreements and panel rulings has been generally good. Hudec (1993), in the first attempt to tally dispute outcomes, found that the large majority of the early GATT panels resolved the dispute. Busch and Reinhardt (2003, 725) find that GATT/WTO disputes produce substantial concessions in 50 percent of cases and partial concessions for another 20 percent of cases. Interest in upholding the overall credibility of the system of rules leads countries to comply with most rulings (Kovenock and Thursby 1992; Jackson 1997; Hudec 2002).[3] The director of the WTO legal affairs division, Bruce Wilson, acclaims members specifically for high compliance with rulings (Wilson 2007). Further, the direct costs of authorized retaliation and the potential reputational costs from noncompliance increase the incentives to cooperate (Bagwell and Staiger 1999, 2002; Maggi 1999).

Critics argue that developing countries benefit less from multilateral enforcement than other members, because they lack legal capacity and retaliatory power. Evidence from filed complaints suggests that developing countries gain fewer trade benefits from winning cases (Bown 2004a, 2004b), suffer from weak legal capacity (Busch, Reinhardt, and Shaffer 2009), and may be less willing to impose countermeasures if the defendant refuses implementation (Bagwell, Mavroidis, and Staiger 2007). However, these studies are motivated by the question of whether a developing country WTO member that files a legal complaint would get more from the system if it had more resources, which is different from asking whether the developing country would get a better outcome *in the absence* of the WTO dispute settlement process. The latter is the relevant question when considering the benefits of membership, which provides access to WTO dispute settlement. Davis (2006) compares the negotiation process for Peru and Vietnam in two "all else being equal" disputes over fish labeling policies based on nearly identical legal terms on technical barriers to trade. Peru used its rights as a WTO member to file a legal complaint at the WTO against Europe, while Vietnam pursued bilateral negotiations with the United States because it had not yet completed the WTO accession process. The divergent outcomes are quite stark—Peru won concessions, while Vietnam got nothing. Officials in Vietnam saw this case as further motivation to continue its negotiations to join the WTO. Once Vietnam joined the WTO, it used the dispute settlement process to bring two cases against the United States. Small countries would do even better if they were larger and if institutions were revised to auction countermeasures or to implement collective retaliation. Yet this does not detract from the reality that WTO dispute settlement under the multilateral trade regime offers small states greater leverage against large states than they would otherwise have outside the regime in asymmetrical negotiations.

To assess the effectiveness of dispute settlement, it is important to include counterfactual outcomes of trade disputes that were *not* addressed through adjudication. Davis (2012) compares outcomes of similar trade barrier disputes raised in negotiations to those adjudicated through a WTO complaint. On average, barriers that were also challenged through a WTO complaint were more likely to show progress toward removal of the trade barrier than those that were not subject to a formal WTO complaint.

Others challenge whether "victory" in a dispute matters in the sense of bringing observable changes to trade flows. The findings of Goldstein, Rivers, and Tomz (2007), who show that nonmember participants experience the same or even larger trade benefits from the regime than formal members, imply that the dispute system does not play a large role in protecting trade flows: nonmember participants shared all rights with formal members, with the exception of the right to use the dispute settlement process. In recent work, Chaudoin, Kucik, and Pelc (2013) and Hofmann and Kim (2013) find little evidence that a WTO ruling produces increased exports to the market that has been found in violation. If true, this raises the question of why states use the dispute process. It may be that they are more interested in political signals sent by dispute actions to actors both at home and abroad. Other work, however, does find a positive effect between dispute settlement and increased trade flows (Bechtel and Sattler forthcoming).

Even though all members have a right to use the dispute system, the structure of government institutions influences how frequently countries use it (Rickard 2010; Davis 2012). Governments push harder in dispute actions on behalf of key interest groups (Fattore 2012; Rosendorff, this volume), and complainants select the timing of disputes against the United States during election years, which could bring more pressure for compliance (Chaudoin forthcoming). Looking at trade partners and products beyond those directly at stake in the specific dispute, governments may seek a deterrent effect, as winning one case could prevent future disputes. Deterrence of cheating counts as a benefit that accrues to members from their access to a legal dispute system.

There are many quantities of interest for assessing the effectiveness of the trade regime. Any single study highlights one aspect of how the regime may benefit members, such as increasing bilateral trade with other members or resolving trade disputes. Each of these outcomes may have varying importance to different members. Where one state seeks more trade, another wants to avoid negative trade linkages with foreign policy or excessive volatility. The average effect of membership may be less relevant than the effect conditional on characteristics of states that influence what they need from membership. A fuller appreciation of regime benefits would need to take into account all dimensions across which the regime serves its members.

Different levels of analysis—beyond dyads and individual states—suggest broader trade regime effects. For example, Oatley (2011) emphasizes that an institution such as the trade regime is a systemic factor that affects outcomes, because political decisions on a range of issues are made conditional upon the context provided by the multilateral regime. Another approach is to compare how states respond to crises. Davis and Pelc (2013) suggest that the ability of the regime to restrain protection must be understood within the context of different types of economic crises that give rise to new demands for protectionist policies. In contrast to local crises in which only one or a few states have incentives to increase trade protection, during pervasive crisis—when many members *simultaneously* face hard economic times—the trade regime establishes a focal point and coordinates a collaborative response to limit the increase in protection. Cao (2012) analyzes trade flows within a network analysis and establishes how trade similarity, not trade flows, is associated with domestic regulatory convergence. Economic researchers have also begun to analyze trade at the network level (e.g., De Benedictis and Tajoli 2011). These new perspectives that move beyond dyadic analysis emphasize the importance for scholars of specifying clear counterfactuals.

The Problem of Using Membership to Identify Regime Effectiveness

GATT/WTO membership status is central to empirical analyses about the effects of the trade regime. In the research discussed in the previous section, membership is used as an identification strategy whereby the effect of membership is inferred from analysis that compares policy outcomes for members and nonmembers. The average effect of membership is taken to reflect the regime's effect as a whole. It is necessary to flag the limitations that arise from using membership to identify institutional effects.[4]

This approach assumes that membership is exogenously given and has no spillover effects. These two assumptions may be problematic. First, selection bias is a concern, given that the process generating membership in the trade regime is not random. Thus, these studies capture the different performance between members and nonmembers but neglect the prior question of what leads countries to join or stay outside of the trade regime in the first place. Second, spillover effects are likely because the policy changes related to being a member of the trade regime are often comprehensive. For example, domestic laws that have been reformed to enhance protection of intellectual property rights will offer this protection equally to members and nonmembers. Even tariff changes are often implemented through MFN policies without exclusively privileging members. Other functions of the regime may induce stability at the systemic level through reducing the volatility of trade flows and supporting open markets during economic crises.

Theories about regime formation and the effects of membership must take into account the endogenous nature of institutions, which are created to serve the interests of members (Martin and Simmons 2001). Downs, Rocke, and Barsoom (1996) highlight that if states accept rules that already reflect their preferences, compliance is not a meaningful concept. From this perspective, liberalization is driven by an exogenous process that leads to preference changes. Hence states should pursue gradual expansion of membership to include new members as they become more liberal (Downs, Rocke, and Barsoom 1998). Theories about why states join the institution need to be connected to the empirical debate about the extent to which the trade regime has been responsible for liberalization of trade flows and resolution of trade disputes.

Decisions to Join

Membership in any regime is voluntary. States must decide to join an institution, and the current members must be willing to accept the applicant. The organizational rules of the GATT and WTO support an inclusive mandate to achieve broad membership. Any country or territory with autonomous control over its trade policy is eligible to join. This section reviews the process of becoming a member and theories about the political and economic variables that shape when countries join. A brief case study of Mexico's accession to the GATT illustrates the factors that can influence decisions to join the regime.

The Accession Process

Under the GATT, two accession processes existed. The standard accession process outlined in GATT Article 33 was decentralized, with most details of accession delegated to the working party, a group of existing contracting parties that opted-in to oversee the accession process for a given applicant. The working party and applicant country held consultations and bargained over an initial tariff schedule, which was then presented to the GATT General Council. GATT Article 33 formally required a two-thirds majority vote to adopt the arrangement, although in practice few votes occurred. Nonmember countries meeting certain criteria, mostly former colonies, were eligible to join the GATT under a simpler accession process outlined in GATT Article 26, which granted membership on the basis of sponsorship (i.e., the written support) of its former colonial power and a note of intention to join the regime. Upon receipt of these notices, the GATT granted immediate membership, bypassing the negotiations required under GATT Article 33. This lowered the entry cost for countries eligible to accede under GATT Article 26 as compared to most countries that acceded under GATT Article 33.[5] Since the establishment of the WTO in 1995, a single process has governed accession. The WTO Article 12 process is formally the same as the GATT Article 33 accession process, but nonmember countries acceding through WTO Article 12 have a longer list of required agreements to negotiate (including GATS, TRIMS, and TRIPS) before gaining WTO membership. Further, trade rounds under the WTO are no longer associated with negotiating entry of applicants, which means that there are few opportunities for reciprocity during WTO Article 12 negotiations. Pelc (2011) highlights how asymmetrical bargaining shapes WTO accession negotiations, as applicants are forced to make concessions while members do not concurrently change their commitments. All applicant countries that were not contracting parties upon transition from the GATT to the WTO in 1995 must complete the WTO Article 12 accession process. Observers have noted the prevalence of WTO-plus commitments, whereby the accession protocol of an applicant country goes beyond the obligations of WTO member countries. Although the rules for accession have not changed greatly between the GATT and WTO, there is a widespread perception that the WTO accession process is more demanding than the GATT accession process.

The accession process is a key moment of leverage when regime members can dictate entry terms for nonmembers. Jones (2009) establishes that the length of WTO accession negotiations has been increasing over time. As the scope of rules has become broader, new members must accept more obligations. The higher cost of being outside the growing regime also allows members to demand more of entrants. Kim (2010) argues that those who join the trade regime under WTO rules enjoy higher increases in trade than earlier entrants who joined under the GATT rules. Allee and Scalera (2012) demonstrate that states given a free ride to enter the regime without any negotiation, an accession option under the GATT available to the former colonies of members, receive the smallest trade gains. The more rigorous negotiation demands placed on other states bring more liberalization concessions that also lead to more trade gains. The demands placed on entrants also vary as a function of their economic size. Pelc (2011) identifies middle-income states—those not protected by norms of special and differential treatment and those whose export markets are not large enough to have strong bargaining power—as those that offer the most liberalization concessions during accession negotiations. Neumayer (2013) finds that trade interests determine which members opt into the GATT/WTO working party that negotiates accession terms. Members recognize the risks of competition from expanding membership and use the accession window to strategically delay accession and negotiate terms that will protect their key interests. This flexibility surrounding accession becomes a source of informal institutional power (Stone 2011).

The Economic and Political Determinants of Membership

New research directly models the economic, political, and legal factors that create differential costs and benefits for a country to join the trade regime. The interests of the members ultimately determine entry; these interests reflect not only their economic gains from an expanding membership in the trade regime, but also their broader foreign policy objectives. Applicants weigh a mix of economic risks and benefits from expanding market access and competition and may see the rules as a guarantor against arbitrary sanctions. Thus on both the supply and demand sides, one must examine multiple dimensions.

The largest draw of membership is market access. For states dependent on trade with GATT/WTO members, entry will lower their trade costs. In an innovative study, Copelovitch and Ohls (2012) examine the former colonies of members who were granted "free pass" entry under Article 26 provisions of GATT accession. Since these countries did not face any bargaining or policy reform conditions that could act as a barrier to entry, the study highlights the demand side of membership. They find that high trade dependence with members was an important factor in bringing some of these countries to join early after independence. In contrast, a country such as Vietnam waited until later—after expansion of the agreement terms under the WTO made accession more difficult—before it decided to join.

Ironically, the ability to protect sensitive industries under the trade regime is one important condition for accession into the institution. Kucik and Reinhardt (2008) provide evidence that states with stronger antidumping laws are more likely to join the trade regime and to liberalize more when they join. As described by Rosendorff (this volume), flexibility measures have been essential to allow free trade commitments by countries that want to be responsive to domestic political actors. A heterogeneous group of countries with mixed preferences on free trade has joined the institution because it does not demand rigid commitments to fully open markets. This in turn presents challenges for cooperation. India was among the founding members of the GATT and has also been among the most reluctant to open its markets, to the point where its demand for a special safeguard measure to protect its agricultural sector was given as one reason for the collapse of the Doha Round ministerial meeting in 2008. Former US Trade Representative Susan Schwab commented on the long deadlock in WTO negotiations: "No future multilateral negotiation will succeed, however, without addressing the very real differences in economic strength, prospects, and capabilities within the so-called developing world. It is worth recalling that one of the WTO's most important characteristics is the inclusion of these developing economies in governance and decision-making from its origins as the General Agreement on Tariffs and Trade in 1948" (2011, 117).

In addition to trade levels, geopolitical alignment and democracy appear to be equally important for determining membership. The GATT, which was created as part of the Bretton Woods Agreements, brought together twenty-three countries under the leadership of the United States and United Kingdom. Countries that subsequently joined were colonies and friends of these countries. The Cold War made it less likely that the Soviet Union or its allies would join (although the Soviet Union was invited to join the GATT, and Czechoslovakia was a founding member). Davis and Wilf (2014) argue that geopolitical ties between applicants and members provide a basis of common interest that draws states rapidly into the regime. The discretionary accession process has allowed members to use the GATT/WTO as a tool of statecraft, raising and lowering the bar for nonmember states to enter the organization. By modeling the timing of nonmember application—instead of formal accession year—Davis and Wilf avoid the endogeneity problem associated with many states' long accession processes. Their statistical analysis of applicants shows that the allies of members and democratic states are significantly more likely to join the regime. In some cases, members encourage the application of an ally or dependency, such as US sponsorship of Japan's application in 1952 or the US role in encouraging Iraq and Afghanistan to apply in 2004. When East European countries were being courted as part of foreign policy strategy, Poland, Hungary, and Romania were granted lenient accession terms so that they could join in the 1960s without substantial tariff liberalization or reforms of their state-planned economies.

Mexico's Debate over Membership

The case of Mexico illustrates a number of factors that can impact membership decisions. Economic preferences shape whether governments are willing to engage in trade liberalization, and both domestic political interests and the structure of the economy impact views about economic benefits from joining the regime. In addition, broader political concerns related to nationalism and relations with other countries shape the calculus of leaders.

Reluctance to embrace free trade delayed application and accession by Mexico. The first rejection of membership occurred in 1947, when the Mexican finance minister announced that the country would not ratify the Havana Charter to establish the International Trade Organization or participate in the GATT because the organization would ruin national industries (Ortiz Mena 2005, 217). Import substitution policies led to declining shares of trade as percent of GDP throughout the 1950s and 1960s and at first delivered strong economic growth. With economic downturn in the 1970s, however, the government began to experiment with different economic policies. Under pressure from the International Monetary Fund after receiving funds to help address the 1976 balance of payments crisis, the Mexican government launched a series of reforms, including steps to liberalize trade policies (Ortiz Mena 2005, 219). It appeared that Mexico was turning from import substitution to export promotion, and this shift in policy orientation explained the move to apply for GATT membership in 1979. The working group on accession met five times to produce an accession protocol that gave Mexico wide latitude to pursue its development strategies (Story 1982, 772–773).

At this point, Mexican President Lopez Portillo engaged in a remarkably open domestic debate on the merits of GATT accession. The deliberation process, with input from economic analysts and consultation with industry and labor groups, was covered in front-page media commentary. Ortiz Mena (2005, 221–222) notes the irony that this debate went forward entirely separate from the accession offer, which was negotiated with extremely favorable terms for Mexico. Rather than specific industries lobbying against import competition, attention focused on economic sovereignty and the development model writ large. The final vote of the cabinet in March 1980 opposed accession, and the government informed the GATT that it would postpone its application. Mexico had decided to remain committed to state intervention and oil exports. The push for economic reform was set aside as rising oil prices raised the prospect for a return to high growth.

The United States had actively lobbied Mexico on the need for it to join the GATT. Story (1982) contends that the desire to assert independence from the United States perversely pushed Portillo to decline joining. Portillo's relations with the Carter administration were poor at this time. Opponents of the GATT in Mexico portrayed accession as a move toward dependence on the United States. Portillo announced the postponement of GATT accession on the 42nd anniversary of Mexico's expropriation of US oil companies, framing rejection of the GATT in terms of Mexican nationalism and anti-American policy (Story 1982, 775).

Caught by surprise when Mexico postponed its application in 1980, the United States began to impose higher countervailing duties against imports from Mexico (Lara-Fernandez 1987, 20). Export subsidies used as part of Mexican sectoral promotion strategies were seen as inimical to US interests. Friction between the countries was resolved under desperate circumstances. When the collapse of oil prices and spiraling cost of servicing debt obligations threw the Mexican economy into turmoil in the early 1980s, the United States used the Baker plan as leverage to encourage economic reforms in Mexico, including trade liberalization. The 1982 National Development Plan launched structural reforms to restore stable growth and improve competitiveness.

Mexico renewed its application to the GATT in 1985, stating its desire to improve market access and reduce its reliance on petroleum exports.[6] As domestic reforms had begun a process to liberalize its own markets, many urged the government to bargain for access rather than simply adopt unilateral liberalization (Ortiz Mena 2005, 225). Yet the government had not made a complete reversal in course. It only agreed to the accession protocol when assured that it would be allowed to continue sectoral promotion policies, exclude sensitive agricultural products, and retain its pricing system.

Mexico applied after its economic and geopolitical alignment became more similar to that of trade regime members. Its negotiations also displayed the willingness of members to let Mexico in with low conditionality. The accommodating stance of members, in combination with more interest in trade policy reform by Mexican leaders, led the country to finally accept entry into the organization in 1986 after having twice declined to join.

Conclusion

We have highlighted the role of membership in access to markets and dispute settlement. The gains to members, however, remain contested within the literature. The role of economic interests, geopolitical ties, and democracy in shaping member selection means that one needs to be cautious about using membership to identify the effectiveness of the institution. Furthermore, the commonly used dyadic framework neglects broader systemic impact from the regime. More attention needs to be given to discovering how membership benefits some countries in different ways from others or has changed over time.

As the trade regime reaches nearly universal membership, the comparison of members with nonmembers will become increasingly irrelevant. Indeed, the expansion of the regime had already become so inclusive at the time of establishing the WTO that it is very difficult to compare the effect of membership during the WTO period and during the earlier GATT period. By 1995, the year the GATT transitioned to the WTO, 128 countries (two-thirds of total countries in the world) had formally joined the regime, and outsiders were newly independent former Soviet Union countries and an unusual group of laggards. Only two nonmembers—China and Russia—individually held greater than 1 percent of world trade. Since then 32 countries—including China in 2001 and Russia in 2012—completed the accession process under the WTO, 23 countries are in the process of negotiating accession, and only a handful of countries are neither members nor formal applicants in the process of negotiating membership (as of 2013). The remaining outsiders are such a biased sample of countries that one could not generalize from analysis of this group of states.

Instead, attention is turning to the WTO-plus agreements being concluded among subsets of members. The proliferation of bilateral and regional agreements raises the question of how these overlapping memberships impact the benefits of membership in the WTO. Diversion of trade flows and fragmentation of legal obligations could erode benefits, but a competitive liberalization process could push broader and deeper commitments at both levels. A serious challenge lies in the imbalance of power across negotiation and enforcement of rules. The large membership of the WTO contributes to the stalled negotiations over new rules in the Doha Round, while more limited membership allows countries to forge ahead in the rapid conclusion of bilateral and regional trade agreements. Yet the asymmetrical nature of many bilateral and regional trade agreements weakens their enforcement power, while the multilateral system draws broader enforcement credibility from the wider membership. Increasingly, progress to negotiate new rules occurs outside of the WTO, while enforcement issues continue to be taken up largely within the WTO.

Notes

1. See Irwin, Mavroidis, and Sykes (2008) on the founding of the GATT.
2. Rose's (2004) analysis includes multiple specifications of the model, and in his conclusion he identifies a number of factors that could drive his finding. In cross-section analysis, he found a positive effect of early trade rounds and a negative effect of later rounds. See Hicks and Gowa chapters in this volume.
3. See Busch and Pelc, in this volume, for a full review.
4. See also Hicks, in this volume.
5. At the beginning of a wave of decolonization in 1960, the GATT determined that each territory eligible to become a contracting party under the GATT Article 26 accession process would gain "de facto' status within the GATT while the territory deliberated about whether or not to accede to the regime. Goldstein, Rivers, and Tomz (2007, 42) treat these nonmember states as participants because de facto participants received MFN treatment and could observe GATT proceedings. These states, however, could not participate in decision making or dispute settlement and lacked status as formal members.
6. GATT, November 27, 1985, L/5919.

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