

Reasons for the Development of GATT into WTO and Changes in Institutional Features

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Abstract: With the continuous development of economic globalization, the formulation of rules and order of global economic trade is paramount. This paper applies the rational design model of international institutions to explore the institutional features of the development from the General Agreement on Tariffs and Trade (GATT) to the World Trade Organization (WTO) and the formal differences between the two institutional arrangements from the perspective of developed and developing countries as fixed actors. WTO has a more enormous scope of issues, a more symmetrical degree of control, and a higher degree of centralization than GATT. By examining the cooperation difficulties faced by GATT and WTO in distributional issues, distribution of power among actors, and enforcement issues, the paper explains the reasons for the formation of new institutional features in the evolution of GATT to WTO. The paper also has particular guiding reference significance on how to save WTO from the current reform dilemma with the aim of a more important role in global economic development and liberal commerce.

Keywords: International institution, GATT, WTO

1. Introduction

In the context of globalization, the formulation and implementation of international trade rules are crucial to the maintenance of the global economic order. Since 1947, the General Agreement on Tariffs and Trade (GATT) has been the main framework for global trade rules; however, with the development of the world economy and the changes in the global trade environment, the limitations of GATT have become increasingly prominent, and it is not able to meet the new demands of international trade. Therefore, the World Trade Organization (WTO) came into being and became the dominant player in global trade rules. However, most of the established research stays at the descriptive level and does not carry out an in-depth study on the dynamics of the system generation and the corresponding institutional form preference, nor do they analyze the changes of the institutional form from the perspective of institutional design. From the standpoint of rational choice institutionalism, this paper uses the logical design model of international institutions to explore the institutional characteristics of the development from GATT to WTO and the differences in the forms of these two institutional arrangements from the perspective of developed and developing countries as fixed actors. Studying this issue is also significant to how the WTO can save itself in the face of the current reform dilemma.

2. Existing Studies and Shortcomings

As a multilateral international trade agreement, GATT has played a significant role in cutting tariffs, breaking down trade barriers, and promoting the liberalization of international trade. Why is it necessary to establish the WTO to develop a multilateral international trade agreement further when it already exists? Existing studies have remained at the descriptive level, exploring only the formation process from GATT to WTO, the inevitable requirements of economic integration, changes in national strengths, and changes in organizational structures, and seldom analyzing the reasons for such systemic changes from the perspective of the fixed actors and the angle of system design.

2.1. The Inevitable Requirements of Economic Integration

Due to the implementation of the General Agreement on Trade (GATT) to reduce tariffs, the abolition of differential treatment, and a series of measures to promote trade liberalization, the rapid development of the world economy, accelerating the process of economic integration, trade exchanges between countries and contacts more and more closely also makes the process of exchanges in the intensification of trade friction, the trend of regional blocs is growing, the re-emergence of trade protectionism, international trade in more and more complex forms of economic integration development puts forward higher requirements for the GATT. The integrated development of GATT put forward higher standards, and the birth of the WTO is also the inevitable result of the need to integrate the world economy [1].

2.2. Changes in National Power

GATT is the United States' order to establish the post-war free trade system and promote the implementation of the United States by the political, economic, and military power accumulated in the Second World War; the United States has gained the status of "world hegemony", the reconstruction of the post-war international order has absolute dominance. However, in the 1970s, a series of shocks hit the U.S. economy, and its hegemony gradually declined [2]. Still, the development of other countries was remarkable, with the European Community becoming the world's largest trading bloc and Japan leaping to become the world's third-largest economy. These rising developed countries were unsatisfied with being subjugated to the United States-dominated international order. They demanded more say [3], and the hegemony of the United States could not function under this change in power, requiring the establishing of a new international trade system.

2.3. Inadequate Organization and Functions

GATT, as a multilateral international trade agreement, is not a global organization; the issues involved in the field of limited, no legal constraints are challenging to resolve trade disputes, but also unable to curb the spread of trade protectionism, which significantly reduces the authority of GATT, weakening the GATT on the regulation of international trade capacity, the need for a new organization to replace.

On the whole, as to the question of why the WTO replaced the GATT, the above three kinds of different perspectives have given specific explanations, but there are also many shortcomings: only the political, economic, and structural defects explain this phenomenon but did not have an in-depth study of the dynamics of the system and the corresponding institutional form preferences, and did not analyze the changes in the form of the system from the point of view of the fixed actors and the angle of the system design [4].

3. Rational Design Model of the International Regime

Three scholars, Barbara Koremenos, Charles Lipson, and Duncan Snidal, have proposed a model of the "rational design of international regimes" in which membership is defined; in the model, membership, the scope of the issue, degree of concentration, mode of control and flexibility are the five characteristics of international regimes and the five dimensions that distinguish between different types of international rules. The four categories of implementation problems, distributional problems, number of actors involved, and uncertainty are the four types of inter-state cooperation challenges [5], as shown in Table 1.

With the help of the rational design model of the international system, this article can better help us understand the GATT to WTO system changes from the institutional design perspective. However, since not all views in this model apply to the development and improvement of GATT to WTO, this article only draws on a few stands for analysis.

Table 1: Summary of Rational Design conjectures [5]

M1:	Restrictive MEMBERSHIP increases with the severity of the ENFORCEMENT problem
M2:	Restrictive MEMBERSHIP increases with UNCERTAINTY ABOUT PREFERENCES
M3:	MEMBERSHIP increases with the severity of the DISTRIBUTION problem
S1:	SCOPE increases with NUMBER
S2:	SCOPE increases with the severity of the DISTRIBUTION problem
S3:	SCOPE increases with the severity of the ENFORCEMENT problem
C1:	CENTRALIZATION increases with UNCERTAINTY ABOUT BEHAVIOR
C2:	CENTRALIZATION increases with UNCERTAINTY ABOUT THE STATE OF THE WORLD
C3:	CENTRALIZATION increases with NUMBER
C4:	CENTRALIZATION increases with the severity of the ENFORCEMENT problem
V1:	CONTROL decreases with NUMBER
V2:	The Asymmetry of CONTROL increases with the asymmetry of contributors(NUMBER)
F1:	FLEXIBILITY increases with UNCERTAINTY ABOUT THE STATE OF THE WORLD
F2:	FLEXIBILITY increases with the severity of the DISTRIBUTION problem
F3:	FLEXIBILITY decreases with NUMBER

4. Institutional Features

Why was it necessary to establish the WTO further to develop the GATT, a multilateral international trade agreement, when it already existed, and in what ways was the WTO an improvement over the GATT? Here, we introduce the International Institutional Rational Design model to explain the formal differences between the two institutional arrangements based on the institutional characteristics of the International Institutional Rational Design model.

4.1. Scope of Issues

In the rational design model of international regimes, the scope of issues mainly refers to the different aspects of issue areas covered by a particular mechanism [6]. From this perspective, the topics covered by GATT and WTO are other. Before the Uruguay Round, GATT mainly focused on the traditional negotiations on trade in goods. Still, the Uruguay Round broke through the conventional areas of negotiation. It included for the first time the areas of work in agricultural products, trade in textiles and garments, trade in services, international investment and trade-related intellectual

property rights, and environmental protection [7], which made the scope of issues involved in the WTO more comprehensive and the areas of problems more diversified.

4.2. Degree of Control

In a rational design model of international institutions, the degree of control may be limited by a range of factors, such as the voting rules of the institution and the source of funding [8]. The subject's role, status, and function in the system differ, and the degree of control over the system is also other. GATT was promoted after World War II to establish a free trade system, and developed countries such as the United States dominated the whole process by their mighty strength. Still, with the economic power of the developing countries and the enhancement of their international status, the developing countries participated in establishing the WTO and put forward their interests and demands. However, as the economic power of developing countries grew and their international status improved, developing countries participated in establishing the WTO and put forward their interests.

4.3. Degree of Centralization

In the rational design model of the international system, the degree of centralization covers a wide range of centralized activities, including the establishment of an independent international secretariat to collect and disseminate information, reduce bargaining costs, facilitate the implementation of international agreements, raise the political level of the operation of the global mechanism, etc. [5]. The GATT does not have a secretariat in law. In the early stage of its process, it borrowed the secretary team of the "Interim Committee" of the United Nations ECOSOC to prepare to establish the "International Trade Organization" to deal with daily affairs. "International Trade Organization" of the "Interim Committee" of the secretary team deals with day-to-day affairs; the highest authority is the Conference of the Parties to the General Assembly, generally held once a year. WTO not only set up a secretariat, a dispute settlement body but also added an appeal procedure; the highest authority is the World Trade Organization Ministerial Conference, held at least once every two years. From the point of view of the construction of the secretariat and the perfection of the organizational structure, the degree of centralization of WTO is higher than that of GATT.

5. The Cooperation Dilemma

According to the rational design model of international institutions, institutional features produce different forms of institutional differences because countries encounter various cooperation dilemmas in their institutions, and the following will explain why various institutional parts emerge in GATT and WTO from the perspective of cooperation dilemmas between developed and developing countries.

5.1. Distributional Issues

In the previous rounds of negotiations, GATT adopted "product to product" mode. Tariff negotiations are also limited to the leading supplier countries and the central importing countries due to the economic strength of developing countries and developed countries being a too large gap between developing countries and developed countries, developing countries in the import and export of products compared with developed countries do not have any advantage, developed countries in the import and export of products is the widest participation in the field is the most extensive vested interests. The developed countries have the broadest participation in product import and export and are the biggest beneficiaries. Moreover, developed countries have set up many tariff barriers against developing countries, including tariff peaks, and most of these tariff peaks are mainly concentrated in sectors where developing countries have a comparative advantage: major agricultural products,

textiles, foodstuffs, garment manufacturing, leather, and products. These barriers have hindered the export trade of developing countries. These impeded the export trade of developing countries to the detriment of their national interests. As the international status of developing countries improves and their voice in the international community grows, their membership in GATT is also increasing, and they are demanding that GATT be reformed to enjoy more preferential treatment.

According to hypothesis S2 of the rational design of the international system in Table 1, the more serious the distributional problems are, the larger the issue's scope. This explains why the WTO expanded the range of the problems; the uneven distribution of benefits between developed and developing countries led to increased trade friction, which brought negative impacts on the world economy and the development of the GATT, and the expansion of the scope of issues allows different countries to choose from other areas of the case to satisfy their own most significant interests. In May 1986, the Uruguay Round of negotiations officially began; the round took seven years to complete; the content of this round went beyond the issue of tariffs but also involved agricultural trade and textile and textile trade. The Uruguay Round took seven years to complete, and the content of the negotiations went beyond the issue of tariffs to cover a whole range of topics such as trade in agricultural products, trade in textiles and clothing, trade in services, international investment, and trade-related intellectual property rights, etc. The broadening of the scope of the issues provided countries with more choices for their interests. It was conducive to the conclusion of the cooperation and realization of the system's functions.

5.2. Distribution of Power Among Actors

According to hypothesis V2 of the rational design of the international regime in Table 1, the more imbalanced the power among actors, the more asymmetric the control.

Regarding the decision-making process, GATT grants each party one vote, i.e., a majority of the votes should make resolutions of all parties. However, GATT has developed a consensus decision-making method whereby the participating parties can reach a solution with no objections. The flaws in this system, which is usually called invitation-only so-called "Green-Room-Meetings" where developing countries are excluded from essential decision-making consultations and developed countries can set the agenda according to their interests, also mean that it is challenging to address the problem of allowing developing countries to make decisions that are not in their interest. The shortcomings of this system also mean that it is challenging to manage the power imbalances that victimize developing countries in trade relations [9]. GATT has, therefore, been a negotiating forum for developed countries since its inception.

In the face of many inequalities, developing countries have been striving to improve their position within the multilateral trading mechanism, such as returning the trade in textiles and clothing to the world trading system, and developing countries, in general, have gradually become a significant force. As the developing countries' position in international trade improved, their voice in the GATT negotiations became more and more powerful. Developing countries have also gradually realized that the trade rules formed through negotiations at the multilateral level are more stable and reliable than the preferential policies unilaterally imposed by developed countries, so the tendency of multilateral participation in the reconstruction of the international trade mechanism has become more and more pronounced. The GATT will gradually eliminate the control of a single big country so that developed and developing countries can carry out dialogue and negotiations on a relatively equal footing in the field of international trade.

5.3. Implementation Problems

The implementation problem of the international system refers to the fact that actors are motivated by fraud and betrayal and that the vast short-term gains from unilateral acts of treason can cause actors to disregard the long-term gains from cooperative behavior.

According to hypothesis C4 of the rational design of the international system in Table 1, the more serious the implementation problem is, the higher the degree of concentration is. Since the establishment of GATT, it has been the negotiation place for developed countries; developing countries only get formal equality, and there are too many exceptions in GATT. For example, we are familiar with the "gray area measures"; that is, some big trading countries, through domestic legislation and administrative measures, implement trade discrimination against other countries, forcing other countries to accept export restrictions on products disguised as the implementation of trade protectionism, generally in an undisclosed or semi-disclosed manner, with low transparency, for example, the United States, Japan, Canada and some countries in Western Europe use the "gray area measures". For example, the United States, Japan, Canada, and some countries in Western Europe use "gray area" measures to control textiles, clothing, footwear, and food products from some developing countries in Asia. The GATT does not specify the applicable provisions for this type of measure, which makes the legal status of such actions unclear.

For developing countries, the GATT dispute settlement mechanism does not provide them with guarantees. For example, in 1961, Uruguay accused 15 developed countries of violating the provisions of the GATT. It cited more than 500 illegal trade-restrictive measures affecting Uruguay's exports [10], particularly the EC's Common Agricultural Policy (CAP) and the multiple taxation measures, but the complaint ended up in vain.

In short, GATT's dispute settlement mechanism does not solve the problem or protect the interests of developing countries. This requires a higher level of agency and strict structure organization to form adequate supervision, improve the cost of betrayal, and minimize the friction of interests, so the WTO dispute settlement mechanism and the Appellate Body came into being, improve the organizational structure of GATT, even if there is a problem of implementation, but also with the help of the mechanism for communication and mediation, to maximize the protection of national interests of all countries.

6. Conclusion

By the theoretical model of the rational design of international institutions, this paper focuses on the relations and institutional changes due to the global cooperation dilemmas in the evolution from GATT to WTO. The characteristics of the new WTO system, i.e., the scope of the issues, have been enlarged due to the seriousness of the distributional problems. The degree of centralization has been increased due to the severity of the implementation problems and the increase of the world's uncertainty by the theoretical model of the rational design of the international institutions and a more symmetrical degree of control.

The evolution of GATT to WTO is a new step in the liberalization of world trade. The WTO has an enormous scope of issues, a higher degree of concentration, a tighter structural organization, and a fairer and more efficient dispute settlement mechanism. Still, it is now equally faced with severe and new challenges: the destruction of WTO rules by unilateralism, the inefficiency of decision-making mechanisms, the insufficiency of transparency, and the insufficiency of governance, etc. WTO Reform of the WTO is imminent, but due to the divergence of interests of all parties, many uncertainties have been brought to the WTO reform, which requires the superpowers to actively take responsibility and rebuild trust, especially for a consensus between developed and developing

countries, for the success of WTO reform, and a more critical role of WTO in global trade liberalization and economic development.

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