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**THE WTO AGENDA FOR THE
NEW MILLENNIUM**

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ABSTRACT

This paper examines the main challenges confronting the WTO and assesses the WTO's potential to address each of these issues in the near term. The immediate challenges include completing the integration of agriculture and textiles and clothing into the mainstream of the GATT, and improving rules for liberalizing trade in services. But many new issues have arisen during the 1990s. The paper assesses both the opportunities available to meet those challenges and the prospects for success in further market liberalization via a new round of multilateral trade negotiations. It concludes by drawing out implications of these developments for Australia.

Keywords: WTO, Uruguay Round, multilateral trade negotiations

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NON-TECHNICAL SUMMARY

Despite the huge contribution the General Agreement on Tariffs and Trade (GATT) has made to the world economy in the 50 years since it first came into force in 1948, substantial scope remains for further contributions from its successor since 1995, the World Trade Organization (WTO). This survey paper examines the main challenges confronting the organization as it moves into the new millennium, and assesses the WTO's potential to address each of these issues. They include completing the integration of agriculture and textiles and clothing into the mainstream of the GATT, improving rules for liberalizing trade in services, and lowering further the barriers to trade in all three product areas. But, in addition to these issues, new challenges have arisen during the past few years.

Thus, as well as digesting the latest agreements resulting from the Uruguay Round, the WTO needs to address such issues as the calls to use the WTO and its dispute settlement procedures for issues only peripherally related to trade (environment, labour, human rights more generally), the surge in applications from (especially former socialist) countries wishing to join the WTO, the continuing growth of regional trading arrangements, and the rapidly expanding importance of foreign investment and competition policy as globalization proceeds.

The paper suggests that the most urgent of these issues can best be addressed in the context of another comprehensive round of multilateral trade negotiations early next century, particularly given the built-in agenda to return to the agriculture and services agreements by 2000 anyway. In that case 1999 needs to be devoted to the non-trivial task of building a consensus among WTO members to launch that round at the next Trade Ministerial meeting of WTO members, scheduled to begin in Seattle on 30 November 1999.

The paper concludes by drawing out implications for Australia. It is not only agricultural trade reform that is of interest to Australia's economy. After all, rural products make up barely one-fifth of Australia's exports of goods and services these days. More important is the fact that more than 60 per cent of Australia's exports go to East Asia, which means that growth in those exports is very much dependent on a

return to rapid economic growth in Asia. Thus Australia has a strong interest in the implementation of the Uruguay Round's agreement on textiles and clothing too. Australia, being geographically on the periphery, also has a strong interest in open trade in skill-intensive products whose production location need not matter, such as electronic commerce. And being in the East Asian time zone gives it a potential comparative advantage in financial services, particularly if it copes with the Y2K problem better than its banking competitors in Asia. Hence keeping trade in services open and liberalizing such markets more in the next WTO round will help to further the transformation of the Australian economy into a high-tech service provider.

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I Introduction

Despite the huge contribution the General Agreement on Tariffs and Trade (GATT) has made to the world economy in the 50 years since it first came into force in 1948, substantial scope remains for further contributions from its successor since 1995, the World Trade Organization (WTO). This survey paper examines the main challenges confronting the organization as it moves into the new millennium, and assesses the WTO's potential to address each of these issues. They include completing the integration of agriculture and textiles and clothing into the mainstream of the GATT, improving rules for liberalizing trade in services, and lowering further the barriers to trade in all three product areas. But, in addition to these issues, new challenges have arisen during the past few years.

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II Immediate challenges with the Uruguay Round's built-in agenda

Implementation of Uruguay Round agreements that were concluded in April 1994 will continue through to 2000 (and to 2004 in the case of textiles and for some developing country commitments). As well, new commitments have been made in telecoms and financial services during 1997 by more than half the WTO member countries. These were unfinished parts of the negotiations leading to commitments under the General Agreement on Trade in Services (GATS). In aggregate, the Uruguay Round involves

substantial promises to reduce import barriers and agricultural subsidies and to strengthen intellectual property rights, details of which need not be repeated since they are now widely available (see, for example, Martin and Winters 1996).

Even if the WTO were to face no new challenges, simply digesting those Uruguay Round agreements and monitoring and adjudicating compliance constitute major increases in the workload for the WTO Secretariat, and for member states' delegates in Geneva and their support staff in national capitals. To illustrate, consider first the contentious agriculture agreement.

(i) The agriculture agreement¹

It is right to applaud the inclusion at last of agriculture in the rules-based trading system following the Uruguay Round. Agricultural more than most sectoral policies need to be disciplined under the GATT/WTO. This is because without such discipline, the empirical evidence across countries and over time strongly suggests domestic political pressures are such that many countries would eventually adopt policies that increasingly assist and insulate their farmers from foreign competition (see Anderson (1995) and the references therein). Such policies in a subset of countries lower the mean and increase the variance of international food prices, thereby encouraging additional countries to adopt similar policies. Their perpetuation, though wasteful, is affordable in advanced economies because of the sector's small and declining shares of GDP and employment.

While farm policies had proved to be too politically contentious to be included in previous GATT rounds, their inclusion in the Uruguay Round was considered unavoidable because the farm policies of OECD countries had become extremely distortionary by the 1980s, both absolutely and relative to non-farm trade policies. There was every indication that agricultural protection growth would continue to spread, cancer-like, unless explicitly checked. This prompted Australia to form the Cairns Group of agricultural-exporting countries,² whose sole objective was to ensure the Round was not concluded until an adequate agricultural agreement was in place.

In the light of the long history of agricultural protection growth in industrial countries, even achieving a standstill in agricultural protection via the Uruguay Round would have to be described as progress. It is an advance over what otherwise might have been the case in part because it reduces the risk of newly industrializing countries following the more advanced ones down the agricultural protection growth path.

¹ This sub-section draws on Anderson (1999). See also Josling (1998).

² The Cairns Group currently comprises 15 members: Australia, Argentina, Brazil, Canada, Chile, Colombia, Fiji, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand and Uruguay. Originally it involved 14 countries excluding Paraguay and South Africa but including Hungary. The group is named after the Australian city where they first met in August 1986.

As it turned out, only a little more than a standstill was agreed to in the three key areas of farm export subsidies, import market access, and domestic producer subsidies. The fact that farm export subsidies are still to be tolerated continues to distinguish agricultural from industrial goods in the GATT, a distinction that stems from the 1950s when the United States insisted on a waiver for agriculture of the prohibition of export subsidies. Moreover, even by the turn of the century farm export subsidies may be only about one fifth lower than they were in the late 1980s to comply with the agreement.

A second distinguishing feature of the agricultural agreement is that it requires all nontariff import barriers to be converted to tariffs. Those tariffs are then to be reduced and bound. However, the extent of tariff reduction by the end of the century is even more modest than for export subsidies. Indeed, the claimed tariff equivalents for the base period 1986-88, and hence the initial tariff bindings, are in many cases far higher than the actual tariff equivalents of the time (Ingco 1995). This 'dirty' tariffification has two consequences. One is that actual tariffs may provide no less protection by the turn of the century than did the non-tariff import barriers of the early 1990s. The other consequence is that countries can set the actual tariff below their bound rate but vary it so as to stabilize the domestic market in much the same way as the EU has done in the past with its system of variable import levies and export subsidies. This means there will be much less than the hoped-for reduction in fluctuations in international food markets that tariffification was expected to deliver.³

It is true that some countries have agreed also to provide a minimum market access opportunity. However, there are several caveats on that access. One is that it can be subject to special safeguard provisions (another form of contingent protection). Another is that there is scope to minimize the impact on those imports on the domestic market: Japan's required rice imports could be of low feed quality and/or could be re-exported as food aid, for example. Thirdly, market access rules formally introduce scope for discriminating in the allocation between countries of these tariff quotas. Thus the administration of such quotas tends to legitimize a role for state trading agencies. When such agencies have selling rights on the domestic market in addition to a monopoly on imports and exports of farm products, they can choose to charge 'mark-ups' and thereby distort domestic prices easily and relatively covertly. There are thus elements of quantitative management of both export and import trade in farm products now under the WTO, including scope for discriminatory limitations on trade volumes, rather than just limitations on price distortions. And perhaps most importantly, tariff quotas have bestowed a valuable asset on those exporters lucky enough to be granted

³ Dirty tariffification is not confined to industrial countries. On the contrary, developing countries are even more involved in the practice. This is possible because they were allowed to convert unbound tariffs into 'ceiling bindings' unrelated to previous actual rates of protection. Many developing countries have chosen to bind their tariffs on agricultural imports at more than 50 per cent and some as high as 150 per cent -- far above the tariff equivalents of their restrictions actually in place in the 1980s/early 1990s (Ingco 1995).

some low-duty or duty-free access to a restricted market. Those exporters may then become a force *against* further liberalization of that market.

The third main component of the agriculture agreement is that the aggregate level of domestic support for farmers is to be reduced to four fifths of its 1986-88 level by the turn of the century. That too will require only modest reform in most industrial countries because much of the decline in that measure of support had already occurred by the time the Uruguay Round agreements were signed in 1994.

There was a concern among agricultural exporters during the Uruguay Round that any hard-won benefits to them from the agriculture agreement could be reduced by current farm protectionist measures being replaced by alternative measures, most notably to achieve domestic policy objectives via quarantine restrictions and environmental measures. To reduce the likelihood of the first of those, an agreement to restrict excessive use of Sanitary (human and animal health) and Phytosanitary (plant health) measures also was negotiated. The sanitary and phytosanitary (SPS) agreement seeks to ensure that any such SPS import restrictions are imposed only to the extent necessary to ensure adequate food safety and animal and plant health on the basis of scientific information, and are the least trade-restrictive measures available to achieve the risk reduction desired. Although there is sufficient vagueness in the wording to ensure that the protectionist abuse of SPS measures is still possible, the dispute settlement evidence to date shows that exporting countries can succeed in getting WTO panels to rule against the most excessive cases.

The second area where offsetting assistance could be provided is in the guise of exempt domestic policy instruments. Important exemptions in measuring the so-called Aggregate Measure of Support were granted for certain domestic policies, most notably those which purportedly did not encourage supply ("blue box" items such as land set-aside payments, and "green box" items such as payments for environmental services farming is said to provide). One of the expected features of the next round is that highly protected countries will seek to expand the number and type of listed exempt measures, to make re-instrumentation of support measures easier (Anderson 1998b). Cairns Group members and other food exporters will need to monitor this development carefully lest it effectively offset the reforms they have fought so hard to achieve.

In short, implementing the agricultural reforms agreed to in the Uruguay Round will involve by 2000 only very modest liberalization in industrial countries and even less in developing countries, with plenty of room for disputes over compliance and for further reductions in the new millennium. But at least agriculture is now in the mainstream of the WTO (which allowed the other agreements in the Uruguay Round to be concluded), and it was agreed to reopen agricultural negotiations by the end of 1999 to continue the process of farm reform. Moreover, the important need to tariffy non-tariff import barriers and to include domestic producer subsidies and a quantified Aggregate Measure of Support in the reform package, has been recognised. These new rules and obligations eventually should constrain further farm protection growth in both

advanced and newly industrialized countries, thereby promising greater certainty and stability to international food markets next century.

(ii) The agreement on textiles and clothing

Another major achievement of the Uruguay Round was to bring textiles and clothing back into the mainstream of GATT/WTO activities. Since the early 1960s these industries had been treated differently from other manufacturing. Specifically, their protection in advanced economies from import competition from newly industrializing countries had grown enormously, contrary to the policy trend for most other manufacturing industries. That had been most unfortunate for developing countries seeking to export their way out of poverty, and it meant they had much less reason to become active participants in previous GATT negotiations in which policies affecting textiles were not seriously under challenge.

Like agriculture, the textiles and clothing sector of economies above middle-income status tends to be in relative decline as a share of GDP or exports, and in absolute decline in terms of employment. Also like agriculture, textile and clothing producers in many instances have been successful in securing rising levels of protection from import competition. Having reached the point of extraordinarily high rates of protection in high-income countries and a very considerable degree of managed trade by the mid-1980s when the Uruguay Round was due to be launched, developing country members of GATT made it clear they would not participate actively in the Round unless textiles and clothing trade policies were high on the agenda for liberalization. That was a credible threat in this case, unlike in previous rounds, because of the inclusion on the Uruguay Round agenda of new sectors and issues: advanced economies were keen to improve their access to services and capital markets, and the protection of their intellectual property, in developing countries.

What was achieved in terms of commitments under the Uruguay Round to dismantle textile and clothing protection? As with agriculture, not a lot in absolute terms but a great deal relative to the past and to what might otherwise have been the case. That is, import protection in high-wage countries will continue to be higher for this sector than any other manufacturing sector for the foreseeable future, but there may have been at least a standstill -- and possibly some reversal -- in protection growth.

It is a remarkable agreement not least because it adopts the goal of tariff-only restraints on trade. Again as with agriculture, however, the devil is in the details. In this case, the tariffs are unlikely to be the key constraint on trade for a long time. True, quotas on trade are to grow faster, but nowhere near fast enough to become redundant by the end of the transition decade. According to Hertel et al. (1996), by 2005 the quotas will have increased by only about half the amount necessary for them to become redundant, in which case full tariffication would require the other half of the increase to occur at the end of the ten-year transition period. This seems an unlikely event, and raises questions about the political likelihood of commitments being less than fully implemented.

Another challenge that lies ahead for this group of products has to do with the uncertainties associated with China, Taiwan, Vietnam and other possible new WTO members. While they remain outside the WTO, they are likely to enjoy little if any extra growth in their access to EU and US textile and clothing markets as those liberalizing countries are pressured to honour commitments to developing countries that *are* WTO members. Countries such as China may even suffer reductions to growth in their access to advanced-country markets. On the other hand, what might happen should such countries be admitted to the WTO before the MFA phaseout is due to be completed in 2005? Certainly China is expecting greater access once it joins WTO. In so far as that is provided, these countries' accession would add to structural adjustment pressures for the declining industries of advanced economies, and reduce the quota rents to other developing country suppliers. The least-competitive firms and workers in both sets of countries are unhappy about that prospect, and may use China's accession as an excuse for not completing the phase-out of the MFA by 2005. Should that happen, Anderson et al. (1997) have shown empirically that a great deal of the potential national and global economic benefits from both the Uruguay Round and China's WTO accession would be foregone.

In short, the implementation of this agreement is one which developing countries will have to monitor carefully. The 3-yearly review in 1998 showed very little progress had been made to that date. That means even more effort is required both to minimize further slippage (particularly if/when China joins the WTO) and to make sure further progress is made in the next round of multilateral trade negotiations as it affects this still-highly protected group of products.

(iii) The General Agreement on Trade in Services (GATS)

The GATS was an important and helpful addition to the GATT, since the latter applies only to trade in goods. However, great scope for improving on the present GATS is already obvious. Two illustrations serve to make the point. First, Snape (1998) argues that the GATS is probably too general in its attempt to cover all modes of service delivery and all forms of barriers to access, but not general enough in terms of obligations on countries making liberalization commitments. On the former, he believes that since the parts of the GATS dealing with investment, competition policy and movement of people also could apply to goods trade, they should be taken out of GATS and re-negotiated as more general agreements covering both goods and services. He expects that would allow faster progress on services negotiations, since they could then focus just on cross-border trade and measures discriminating between domestic and foreign suppliers, as with goods trade negotiations. In terms of obligations, Snape argues for the GATS to embrace MFN and national treatment principles, again as with goods trade under the GATT, in place of the current arrangement whereby countries can take MFN and national treatment exceptions.

Secondly, and more fundamentally, the impact of the information revolution in lowering communication and computing costs is adding a whole new dimension to

global economic integration. Just as the globalization of goods trade and investment changed the face of manufacturing in the 1980s, so this digital revolution (helped by deregulation and the transferring of many services from the public to the private sector) is transforming services and ideas-based industries. It is making many previously non-traded services now highly tradable internationally to the point where for some products national borders are becoming irrelevant. It is also making information one of the key factors of production and, unlike land, labour and physical capital, that factor is highly mobile internationally. With financial capital also increasingly having that property of great international mobility (witness the speed of contagion in East Asia's financial crisis during 1997-98), economies are going to be rewarded more than ever for having sound policies in place – and penalized more than ever for having restrictive policies. That is, we may see liberal economies leapfrogging poorer-performing ones even more in the future than in the past 30 years or so. Income gaps within and between countries will depend much more on differences in access to information and the capacity to make productive use of it, relative to differences in endowments of traditional factors of production. This development underscores the significance of the telecom services, financial services and information technology agreements, signed by WTO members in the past year or so, and the TRIPs agreement of the Uruguay Round. While they represent the beginning of systematic reform of those very sectors that are crucial for making the most of the information revolution, their adequacy is already being called into question, not least because of the recent and forthcoming explosion in electronic commerce (WTO 1998).

(iv) The WTO's expanded role in dispute resolution

In the absence of a global government, another key contribution of the GATT has been to provide an avenue for resolving trade disputes. That role has been strengthened very substantially under the WTO, whereby members are committed not to take unilateral action against a trading partner but rather to seek recourse through the WTO's Dispute Settlement Body (DSB) and to abide by its rules and findings. The process and timetable for dispute resolution has been tightened up, made much more automatic, and otherwise greatly streamlined relative to what operated under the GATT before 1995 (Hudec 1995).

The experience over the first two years of this new system was very successful (Cameron and Campbell 1997). During that time developed countries brought about 50 matters to the DSB, developing countries brought more than 20 cases, and a further four were brought by both developed and developing country members. About two-thirds of these have been against developed countries, the other one-third against developing countries. This total of more than 70 in the first two years compares with a mere 300 cases in the total 48-year history of the GATT. Moreover, the DSB's Panel Reports are causing countries to implement significant policy changes, unlike many of the GATT dispute reports. A prominent international trade law professor believes the establishment of the DSB in the WTO "is likely to be seen in the future as one of the most important, and perhaps even watershed, developments of international economic relations in the twentieth century" (Jackson 1998, p.176).

However, the huge growth in the number and complexity of new panel cases has been such that the legal resources of the WTO Secretariat are continually stretched to their limit despite their expansion. It also means national governments need to mount more sophisticated legal teams than previously, which raises equity questions since smaller and poorer members are less able to fund such activities. Finding ways to ensure that this new dispute settlement system is reasonably equally accessible to all members will be important, otherwise some developing country members may feel they are marginalized within the institution.

Moreover, the most contentious Dispute Settlement cases under the WTO have yet to reach their final conclusion. Most notable in this respect is the case involving the European Union's banana import regime. The Panel and the Appellate Body in that case both ruled the EU regime to be inconsistent with several WTO agreements, and the EU had until the end of 1998 to bring its policy measures into conformity with WTO rules. The complainants believe the EU did not do that, so in January 1999 the Panel was reinstated to rule on the issue and, if it finds inconsistencies remain, to arbitrate on the extent of retaliation which complainants can impose.⁴ How this will be played out during 1999 is important for EU consumers and the dozens of developing countries dependent on banana trade of course, but its significance goes well beyond this particular case. Some analysts (e.g. Mavroidis and Horn 1999) are even questioning whether the early enthusiastic comments on the WTO's new Dispute Settlement mechanism were premature.

III New and prospective challenges for the WTO

The above comments provide a sample of the challenges facing the WTO as a direct result of the Uruguay Round. Yet the Round certainly did not address all the key issues confronting the international trading system during the past decade. Moreover, new challenges have since arisen and others are on the horizon. The most urgent of these need to be addressed at the same time as digesting the latest agreements.

Specifically, WTO member governments and the WTO Secretariat need to address such issues as the calls to use the WTO and its dispute settlement procedures for issues only peripherally related to trade (environment, labour, human rights, political matters such as Helms-Burton regarding Cuba), the continuing growth of regional trading arrangements, the surge in applications from (especially former socialist) countries wishing to join the WTO, the rapidly expanding importance of foreign investment and competition policy, the changing nature of services trade particularly with the growth of electronic commerce, and the recent backlash against globalization. Each of these issues is considered in turn below.

⁴ One of the complainants (the United States) has already announced that it believes it is entitled to retaliate in the form of imposing 100 per cent tariffs on more than US\$500 million worth of EU exports to the US.

It is worth noting at the outset that to some extent these new issues are all due to the very success of the GATT/WTO in reducing traditional barriers to trade that hamper economic growth. The lowering of those barriers, together with falling costs of transport and communication between countries (themselves partly induced by policy reforms), have raised the relative importance of domestic economic and social policies in determining the international competitiveness of different industries. For that reason, and because the outlawing of traditional trade policies has encouraged groups to seek government assistance by means of other (typically domestic) policy measures, attention needs to focus increasingly on the more trade-related of those domestic policy measures. One was formally recognised at the signing of the Uruguay Round agreements in 1994, to the extent that it was decided to establish a WTO Committee on Trade and Environment. Subsequently, the growing importance of the linkages between trade and investment policies, and trade and competition policies, was acknowledged at the WTO's first Ministerial meeting in late 1996, where it was agreed to establish working groups to study these two issues as part of the WTO's work program. On both occasions, pressure from some members to have the WTO address also the issue of trade and labour standards was not taken up, but the pressure remains. Meanwhile, countries have sought and will continue to seek faster progress on these issues through existing or new groupings of subsets of WTO members, most notably through regional integration agreements such as the EU, NAFTA, FTAA, and APEC.

(i) Issues peripherally related to trade: environmental and labour standards⁵

The perceived need for international rules and institutions to address environmental and labour concerns arises in part from the long-standing concern in high-standard countries that some of their firms suffer a competitive disadvantage because of lower environmental and labour standards abroad. Even though differences in standards across countries are a natural consequence of differences in national incomes, tastes and preferences, they none the less give rise to claims of 'unfair' trade, which can undermine support for the GATT/WTO rules-based trading system. Such differences become ever-more important as traditional barriers to trade and investment between countries fall (Bhagwati 1996). On the one hand, they lead to claims in developed countries of eco- or social-dumping, and fears of a 'race to the bottom' as governments compete to attract and keep investments in their territory by lowering standards. In poor countries, on the other hand, people fear being forced to raise standards at an earlier stage of development than they would otherwise choose, thereby reducing their comparative advantage in products whose production is intensive in the use of natural resources or unskilled labour.

The issues are made more complicated by the fact that they also involve some externalities that spill over national boundaries. The most obvious examples are

⁵ This sub-section draws on Anderson (1998a).

physical spillovers associated with global environmental problems. Since greenhouse gases contribute to climate change and CFCs deplete the ozone layer regardless of which country they are emitted from, there is a concern that if one set of countries seeks to tax or otherwise induce less of these emissions by firms located in their region, the environmental benefits from those measures will be offset in so far as the activities responsible relocate to countries with lower standards. The freer are international trade and investment flows, the less effective will be sub-global regulation and hence the greater the need will be for international cooperation or coercion.

To what extent is there a parallel claim with respect to labour standards? Many economists would say there is none, because they perceive no physical labour spillovers of the global-warming or ozone-depleting kind. In addition to physical spillovers, though, people can be affected emotionally by and have humanitarian concerns for activities abroad. An example is that people in one country may grieve if another country's activities threaten a particular animal or plant species,⁶ or involve abuse of worker rights or poor working conditions in that other country. Or they may grieve if they believe that the desires of another country's citizens for higher environmental or labour standards in their country are not being recognized sufficiently by their national government (a political market failure). Whether this type of spillover is worthy of any international action, however, is even more contentious than the case of physical spillovers.

What role is there for the WTO in any of these situations? The demands for greater harmonization across countries of domestic policies, for competitiveness reasons, coupled with the greening of world politics and the growing interest in worker rights and other social conditions beyond national borders, are likely to put the WTO and trade policy under pressure to perform tasks for which they were not designed and are not well suited -- and at a time when the WTO needs first to consolidate its role in the world and ensure the completion of unfinished business from and implementation of the Uruguay Round. Many supporters of liberal trade and the WTO therefore are tempted to say the institution should resist all attempts to become involved in these issues. That strategy is risky, however, for it may lead to more-aggressive unilateral use of trade measures by advanced economies against countries with lower social standards, and/or to less willingness in advanced economies to maintain liberal trade policies and to participate in future multilateral trade negotiations. Hence some engagement in the debate by the WTO may be wise. At the very least, that could involve reminding the world of some of the non-trade measures and actions available to address these problems. It could also involve participating in studies aimed at

⁶ A recent case to come before the WTO Dispute Settlement Body, by India, Malaysia, Pakistan and Thailand against the United States, involves the catching of turtles in shrimp trawling nets. Like the previous tuna-dolphin case, by Mexico against the United States, the issue is made more complex by the fact that the production process is not physically detectable in the final product that is traded (shrimp or tuna). Labelling is a much more efficient way of dealing with this issue than simply banning imports of the final product.

showing whether/to what extent trade and investment liberalizations are accompanied or followed by a reduction in these problems directly or through a rise in social standards – that is, to see if trade reform might be part of the *solution* to the problem.

(ii) Embracing socialist and least-developed economies in the WTO

With more than 130 members, the WTO is approaching the status of a truly global trade organization except for under-representation by two groups: the former centrally planned economies (CPEs) seeking to transform from plan to market orientations, and some of the smallest and poorest economies. Most of the CPEs not already members are seeking WTO accession, the most notable being China (whose accession would allow Taiwan to join) and Russia. Their accession negotiations are not moving rapidly, however. The problem is partly that members want more access to those countries' markets than their governments have been willing to give. This is especially so with respect to bound tariffs, signing the WTO's plurilateral government procurement agreement, and assurances over intellectual property rights. Additional problems include their lack of policy transparency and their high degree of state trading (WTO rules for which are still not well developed), not to mention the need to overcome political opposition (for human rights reasons) in the US Congress and elsewhere to their joining (Anderson 1997, Michalopoulos 1998b).

The other group feeling marginalized is the world's least-developed countries (LDCs), particularly those that are not yet WTO members. For them the cost of the accession process, and subsequently of maintaining a mission in Geneva that is large enough to be effective members, is prohibitive without some financial and technical aid (Michalopoulos 1998a). A program of multilateral assistance does exist, and was expanded following a high-level meeting between LDCs and the WTO and five other international agencies in late October 1997. Many bilateral assistance programs also exist (OECD 1998). But with so many countries seeking or considering membership and so many more issues to get on top of following the Uruguay Round, the budgets for those program may need to expand much further, especially if a new round is launched in 2000.

In addition to the 30+ countries in the queue for membership currently, perhaps another 20 will apply soon. Even if it takes the average time of six years for each to accede, this means that within another decade the WTO will have much the same membership number and composition as the United Nations. WTO began as a club of just 23 industrial countries, but their share had fallen to one-quarter by the start of the Uruguay Round – and could be as small as one-sixth by the start of the next round. How well the WTO club manages its own globalization is a moot point. The method of deciding matters by consensus in particular will come under greater pressure.

(iii) Ensuring regional trade agreements are not seen as a WTO substitute

For much of the post-war period regional integration agreements have complemented and supplemented the multilateral trading system rather than marginalized or

undermined it (Anderson and Blackhurst 1993; WTO 1995). But that may have been more due to good luck or special circumstances than to the GATT/WTO rules and procedures governing such preferential arrangements (which continue to be weak). Hence there is no room for complacency on this issue, particularly given the recent rise in the number of regional integration agreements.⁷ The proliferation recently of 'hub and spoke' agreements involving the US and EU is especially worrying, not just because of the trade and investment diversion they cause but also because they divert trade diplomats' attention away from the multilateral trading system. They also tend to have side agreements on environmental and labour standards attached to them, making it harder for the WTO not to embrace these issues.

The more successful the WTO is in meeting its other challenges, however, the less likely it is that regionalism will present a systemic threat. In particular, reducing scope for member countries to use anti-dumping duties as a form of contingent protection could greatly reduce the incentive for small 'spoke' countries to sign onto an economic integration agreement with a major 'hub'.

(iv) Should foreign investment and competition policies be integrated into WTO?

The Uruguay Round agreement on trade-related investment measures barely began to address the issue of distortions caused by foreign investment policies and procedures. Given the massive growth in foreign investment flows in the past decade or so, and the WTO Secretariat's own assessment arguing for the need to bring national FDI policies under WTO discipline (WTO 1996), it is not surprising that the WTO ministerial meeting in late 1996 in Singapore decided to establish a working group to examine the full range of issues surrounding the relationship between international trade and investment.

That 1996 ministerial meeting also decided to examine the interaction between international trade and competition policy. Initial studies of this issue suggest there is already plenty of scope for GATT rules to be used to discipline the contestability of domestic markets (e.g., Hoekman and Mavroidis 1994), and that any move towards harmonization or simply mutual recognition of national competition policies, even if desirable, would be long in getting started and difficult to negotiate (Lloyd and Sampson 1995). Part of the difficulty with bringing this issue into the WTO is that many anti-competitive practices are the actions of private producers, rather than of governments which is the purview of the WTO.⁸

The Singapore Ministerial Declaration stated "It is clearly understood that future negotiations, if any, regarding multilateral disciplines in these areas, will take place

⁷ See Frankel (1997) and Winters (1998a,b). There are now at least 90 regional integration agreements, three-quarters of which formed in the past four years.

⁸ For extensive coverage of this issue, see WTO (1997), Graham and Richardson (1997), and Tharakan and Lloyd (1998).

only after an explicit consensus decision is taken among WTO members regarding such negotiations." Given also the recent failure of the OECD to bring about a Multilateral Agreement on Investment (due partly to pressure from environmental and labour groups), and the lack of movement towards a consensus on how to cope with cross-border competition problems, it seems unlikely that the WTO will burden itself very much with these issues in the next multilateral trade negotiations – especially if, as seems to be the case, members wish to make the next round relatively short (perhaps just three years). However, as of early 1999 the EU and Japan were still pushing for the inclusion of investment in the next round, so that may yet appear if they can rally enough supporters.

(v) Other issues

The above represent the major issues confronting the WTO, but there are many more being discussed by subsets of WTO members. Croome (1998) identifies more than twenty, but argues that most have almost no hope of making it onto the agenda of the next round of negotiations. The only certainties are agriculture and services, and the near-certainties are non-agricultural tariff cuts and broadening the plurilateral agreement on government procurement. Beyond those four, Croome adds as possible additional topics those in the Uruguay Round's built-in agenda that might have difficulty being resolved independently (he cites the current negotiations on rules of origin as an example), or those where a higher level of ambition might be possible in the context of a broader round (examples being TRIPs, subsidies and state trading). Electronic commerce also might make it onto the list. Croome believes environment will feature only if developed countries press very hard for it. Labour, however, almost certainly will be left to the International Labour Organisation and to regional integration agreements.

IV Opportunities to further strengthen the multilateral trading system

The completion of the Uruguay Round negotiations, the subsequent agreements on telecoms, financial services, and information technology, and the on-going implementation of the commitments made in those various agreements all indicate that the rules-based multilateral trading system is very much alive and well as it moves beyond its first 50 years. Also, the strong desire to continue to strengthen the system has been expressed at the political level of the first two WTO Ministerial Meetings (Singapore in December 1996 and Geneva in May 1998), and in the decision to hold another Ministerial in Seattle in late 1999. Those sentiments were reiterated in the Davos conference of world leaders in late January 1999.

Even after the Uruguay Round agreements are implemented, by which time tariffs will be down to very low levels for imports of most manufactured goods by developed countries, there will still be considerable scope for further gains from traditional multilateral trade reform (Francois and McDonald 1996). Given that, plus the built-in agenda associated with Uruguay Round agreements and the plethora of new issues needing to be addressed by the WTO, the case for launching a more-comprehensive

round of multilateral trade negotiations, rather than just re-opening the agriculture and services trade agreements alone in 2000, is compelling.

For that to occur, though, the non-trivial task of building a consensus among WTO members to launch that round needs to accelerate. Many developing countries would be willing participants only under certain conditions. One of those conditions is that issues on which they would be asked to liberalize more than some of them might like (services, TRIPs, investment) be counter-balanced with issues of direct interest to their exporters (particularly agriculture and textiles). Another condition is that more aid funds be made available to the smaller and poorer developing country members (and aspirants) so they can mount an adequate presence in Geneva and fund sufficient preparatory work in their national capitals. It should be kept in mind that there will be much more need for consensus making on this next occasion, because there is not the carrot of inaugural WTO membership to dangle as there was in the Uruguay Round.

A key to expanding support for another comprehensive round of negotiations is to build a stronger domestic constituency for national policy reform. That could be helped considerably by more technical cooperation with developing countries' trade ministries, and more analytical work (including using national and global economy-wide modelling) which clearly demonstrates the indirect benefits from trade liberalization which are so often ignored in policy debate. The capacity of the economics profession to do that analytical work well was made clear in the recent ex post evaluations of the Uruguay Round.⁹ Now is the time for similar but ex ante analytical evaluations for a millennium round, with follow-up dissemination and training seminars to spread the findings widely.

V Implications for Australia

For a long time Australia was a somewhat reluctant participant in GATT matters: the lack of success of its trade negotiators in getting agricultural protection on the negotiations agenda prior to the Uruguay Round caused the government to offer little in the form of market opening prior to the 1980s.¹⁰ That changed dramatically with agriculture's inclusion on the agenda of the Uruguay Round.

However, it is not only agricultural trade reform that is of interest to Australia's economy, for two reasons. One is that rural products make up barely one-fifth of Australia's exports of goods and services these days, compared with two-fifths in the early 1980s, two-thirds in the early 1960s, and five-sixths in the early 1950s. The other is that more than 60 per cent of Australia's exports go to East Asia (up from

⁹ See, for example, the project that culminated in the World Bank conference proceedings volume edited by Martin and Winters (1996).

¹⁰ The history of Australia's involvement with GATT is summarized in Arndt (1965) and Snape (1984). Details can be found in Crawford (1968) and Snape, Gropp and Luttrell (1998, Ch. 9).

barely 20 per cent prior to the mid-1950s), so growth in those exports is very much dependent on a return to rapid economic growth in Asia. Hence Australia has a strong interest in the implementation of the Uruguay Round's agreement on textiles and clothing: directly, because it could expand exports of Australian wool to Asia; and indirectly, because freer textile trade means faster economic growth and structural change in densely populated Asia and hence faster growth in their imports of many other products from natural resource-rich economies. Australia, being geographically on the periphery, also has a strong interest in open trade in skill-intensive products whose production location need not matter, such as electronic commerce. And being in the East Asian time zone gives it a potential comparative advantage in financial services, particularly if it copes with the Y2K problem better than its banking competitors in Asia. Hence keeping trade in services open and liberalizing such markets more in the next WTO round will help to further the transformation of the Australian economy into a high-tech service provider.

As a small economy Australia benefits greatly from the reduced uncertainty that a rules-based trading system provides, even if that system took until recently to begin prising open agricultural markets. Australia is now considered a very responsible WTO member, particularly with the substantial amount of unilateral economic reform it has undertaken in the past 15 or so years. To keep building on that reputation, and the disproportionately large influence that allows Australia to have in shaping the WTO's future path, the remaining vestiges of our protectionist past need to be removed. The most glaring areas are restrictions on imports of motor vehicles and parts and of course textiles and clothing, whose reforms are to be on hold during 2000-2004. But even in the agriculture area Australia may have to polish its image. Its quarantine policies are being perceived as excessively protectionist (James and Anderson 1998), and the Wheat Board as a single-desk exporter is also being targeted. If Australia wishes to again take a leading role in the next round of WTO negotiations, accelerating the reforms it has begun in those areas also would be wise.

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