THE FUTURE OF THE WTO

Kym Anderson

February 1998
(Revised June 1998)
February 1998
(Revised June 1998)

Revision of a paper prepared for a symposium on the World Trading System, Geneva, 30 April 1998, on the occasion of the GATT’s 50th anniversary. Without implicating them, thanks are due to the joint sponsors, the WTO Secretariat and the Graduate Institute for International Studies, for funding my participation. An earlier version of this paper appeared in Norwegian in V.D. Norman and A. Melchior (eds.), From GATT to WTO, Oslo: Norwegian Institute for International Affairs, 1998.
SUMMARY

Despite the huge contribution the GATT has made to the world economy since 1948, substantial scope remains for further contributions from and adaptations by its successor since 1995, the World Trade Organization. After first reviewing why the world needs the WTO, this paper examines the main challenges confronting the organization as we approach 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, and coping with the WTO’s much-expanded roles in monitoring compliance and settling disputes. The Uruguay Round certainly did not handle all the key issues confronting the international trading system, and new challenges have since arisen. Thus, as well as digesting the latest agreements, 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 continuing growth of regional trading arrangements, the rapidly expanding importance of foreign investment and competition policy, the surge in applications from (especially former socialist) countries wishing to join the WTO, the changing nature of services trade because of the information revolution, and the recent backlash against globalization. The paper suggests that most 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 for reviews of the agriculture, services and TRIPs agreements by 2000. In that case the non-trivial task of building a consensus among WTO members to launch that round needs to begin immediately. The paper concludes with a discussion of what it will take to build that needed consensus, and of the prospects for success.
The Future Agenda of the WTO

Kym Anderson

In looking forward from this 50th year of the rules-based international trading system under the General Agreement on Tariffs and Trade (GATT), it is important to realize that the GATT’s contributions to world economic growth, peace and prosperity were achieved despite what appeared at the time to be formidable obstacles. In the introductory chapter to her recently edited volume, Anne Krueger (1998, p. 4) described the GATT’s achievement as one of ‘accidental success’, for its history is full of ironies: plans were not achieved (e.g., the failure to form the International Trade Organization (ITO) in 1947), and key tasks took a very long time to complete (e.g., eight years negotiating the Uruguay Round agreements). Yet the ultimate outcomes far exceed anything that participants dared hope for at the outset.

Even though governments could not agree to form the ITO in 1947, they did sign on to the GATT and subsequently to major multilateral trade liberalizations agreed to in ever-lengthier rounds of negotiations. It seems ironic that those liberalizations, together with reductions in international transport and communication costs (themselves partly induced by policy reforms), have been so successful in fostering interdependence among national economies that they have generated a new set of challenges for the trading system. But for the World Trade Organization (WTO, the GATT Secretariat’s recent successor), there are also major opportunities to make the world a better place. It is the combination of those challenges and opportunities that are the subject of this paper.

To appreciate the WTO’s potential, it is helpful to reflect first on why the world needs an organization to preside over international trade policy. Then the paper examines the systemic challenges that currently or soon may confront the WTO and its member states as we move into the next millenium. These include items of unfinished business already on the WTO’s agenda as a result of the Uruguay Round, as well as new and prospective items. The paper concludes by assessing the opportunities available to the WTO to meet those challenges and in the process to strengthen both the organization and the trading system over which it presides.

1. Why the world needs the WTO

Key objectives

The WTO has four key objectives: to set and enforce rules for international trade, to provide a forum to negotiate and monitor trade liberalization, to improve
policy transparency, and to resolve trade disputes. The first two of these are discussed in this section; the other two in the next. Apart from the transparency role, these were also the key objectives of its predecessor before the WTO came into being, but the WTO is much more comprehensive than the GATT. For example, GATT’s product coverage in practice was confined mainly to manufactures (effectively not including textiles and clothing), whereas the WTO encompasses all goods (including now the sensitive farm sector), services, capital to some extent, and ideas (intellectual property). As well, following the conclusion of the Uruguay Round negotiations, the interim GATT Secretariat was converted to a permanent WTO Secretariat with greatly strengthened trade policy review and dispute settlement mechanisms. It also has a new role: cooperating with the IMF and World Bank with a view to achieving greater coherence in global economic policy making.

**The purposes of WTO rules**

GATT/WTO rules to govern international trade serve at least three purposes. First, they protect the welfare of small and weak nations against discriminatory trade policy actions of large and powerful nations. GATT Articles I (most-favoured-nation) and III (national treatment) promise that all WTO members will be given the same conditions of access to a particular country’s market as the most favoured member, and all foreign suppliers will be treated the same as domestic suppliers. These fairness rules are fundamental to instilling confidence in the world trading system. In particular, they lower the risks that are associated with a nation’s producers and consumers becoming more interdependent with foreigners -- risks that otherwise could be used by a country as an excuse for not fully opening its borders.

Second, large economies have the potential to exploit their monopoly power by taxing their trade, but we know from trade theory that the rest of the world and the world as a whole are made worse off by such trade taxes. Thus while each large economy might be tempted to impose trade taxes, the effect of lots of them doing so simultaneously may well be to leave most if not all of them worse off -- not to mention the welfare reductions that would result in many smaller countries. Hence the value of agreeing not to raise trade barriers and instead to ‘bind’ them in a tariff schedule at specified ceiling levels. This rule is embodied in GATT Article II, whereby WTO members are expected to limit trade only with tariffs and are obligated to continue to provide market access never less favourable than that agreed to in their tariff schedules. Again, the greater certainty which this tariff-binding rule brings to the international trading system adds to the preparedness of countries to become more interdependent.
And the third key reason as to why multilateral rules disciplining trade policy are beneficial is that they can help governments ward off domestic interest groups seeking special favours. This comes about partly via Article II, which outlaws the raising of bound tariffs, as well as via numerous other articles aimed at ensuring that non-tariff measures are not used as substitutes for tariffs. This benefit of the system is sometimes referred to as the ‘Ulysses effect’: it helps prevent governments from being tempted, in this case to favour special interest group at the expense of the rest of their economy.

While no-one would argue that the GATT rules have been applied without exception, the fact that they are there ensures the worst excesses are avoided. They therefore bring greater certainty and predictability to international markets, enhancing economic welfare in and reducing political tensions between nations. More than that, by promoting interdependence the GATT/WTO indirectly has raised the price and hence reduced the likelihood of going to war.

Why countries need the WTO to negotiate freer trade

One of the clearest lessons from trade theory is that an economy unable to influence its international terms of trade cannot maximize its national income and economic growth without allowing free trade in all goods and services. Consumers lose directly from the higher domestic prices of importables, while exporters lose indirectly because import barriers cause the nation’s currency to appreciate (there is less demand for foreign currency from importers) and raise the price of labour and other mobile resources (Lerner 1936). More-open economies also grow faster. Why, then, do countries restrict their trade, and why do they need to get together to agree to liberalize those protectionist trade regimes multilaterally, when it is in their interests to do so unilaterally?

Numerous reasons have been suggested as to why a country imposes trade barriers in the first place, but almost all of them are found wanting (Corden 1997). The most compelling explanation is a political economy one. It has to do with the national income re-distributive feature of trade policies: the gains are concentrated in the hands of a few who are prepared to support politicians who favour protection, while the losses are sufficiently small per consumer and export firm and are distributed sufficiently widely as to make it not worthwhile for those losers to get together to provide a counter-lobby, particularly given their greater free-rider problem in acting collectively (Hillman 1989, Grossman and Helpman 1994, Anderson 1995). Thus the observed pattern of protection in a country at a point in time may well be an equilibrium outcome in a national political market for policy intervention.
That political equilibrium in two or more countries might, however, be able to be altered for the better through an exchange of economic market access. If country A allows more imports it may well harm its import-competing producers if there are no compensation mechanisms; but if this liberalization is done in return for country A’s trading partners lowering their barriers to A’s exports, the producers of those exports will enjoy this additional benefit. The latter extra benefit may be sufficiently greater than the loss to A’s import-competing producers that A’s liberalizing politicians too become net gainers in terms of electoral support. Likewise, politicians in the countries trading with A may well be able to gain from this trade in market access, for equal and opposite reasons. That is, a new opportunity for trade negotiations can stimulate trade liberalization by altering the incentives to lobby politicians and thereby the political equilibrium in trading nations.1

Such gains from trade negotiations involving exchange of market access will tend to be greater nationally and globally, the larger the number of countries involved and the broader the product and issues coverage of the negotiations. Hence the wisdom in negotiating multilaterally with more than 100 countries over a wide range of sectors and issues, as in the Uruguay Round, despite the process being cumbersome. Now that there is so much more product coverage under the WTO than under the GATT, and the number and extent of participation by member countries keeps growing, the scope for exchange of market access has increased dramatically. That is especially true for exchanges between more- and less-developed countries, now that agriculture and textiles and clothing are back in the GATT mainstream and services and trade-related intellectual property have been added, making a wider range of intersectoral tradeoffs possible.

2. Immediate challenges with the Uruguay Round’s built-in agenda

Implementation of Uruguay Round agreements that were concluded at the end of 1994 will continue for the rest of this decade (and beyond 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

1 Elaborations of this economists’ perspective can be found in Grossman and Helpman (1995), Hillman and Moser (1995), Hoekman and Kostecki (1995), Dearforff (1996) and Anderson (1996, Ch. 1). Political scientists are beginning to take a similar view. See, for example, Goldstein (1998).
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 the contentious agriculture and textiles agreements, and then the WTO’s expanded tasks of reviewing trade policy developments and settling disputes.

The agricultural and SPS agreements

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. Since there was every indication that agricultural protection growth would continue to spread, cancer-like, unless explicitly checked, the Cairns Group of agricultural-exporting countries formed and took it upon themselves to ensure the Round was not concluded until an 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 would be an advance over what otherwise might have been the case in part because it would reduce the risk of newly industrializing countries following the more advanced ones down the agricultural protection growth path.

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

---

2 This sub-section draws on Anderson (1998b). See also Josling (1998).
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. This ‘dirty’ tariffication, shown in column 4 of Table 1, 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 tariffication was expected to deliver.3

It is true that some countries have agreed also to provide a minimum market access opportunity. But that access in some cases is subject to special safeguard provisions, where it only offers potential rather than actual access (another form of contingent protection). As well, 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. Furthermore, market access rules formally introduce scope for discriminating in the allocation between countries of these tariff quotas. And perhaps even more importantly, 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,

3 Dirty tariffication 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 (Anderson 1997b).
including scope for discriminatory limitations on trade volumes, rather than just limitations on price distortions.

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 was completed.

Because of a concern among agricultural exporters that the hard-won benefits to them from the agriculture agreement would be reduced by current farm protectionist measures being replaced by alternative measures such as quarantine restrictions, an agreement on Sanitary (human and animal health) and Phytosanitary (plant health) measures was also negotiated. The SPS agreement seeks to ensure that any such SPS import restrictions are imposed only to the extent necessary to ensure 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.

In short, implementing the agricultural reforms agreed to in the Uruguay Round will involve only very modest liberalization over the next six years in industrial countries and even less in developing countries, with plenty of room for disputes over compliance during the implementation period and for further reductions in the new millennium (see column 2 of Table 1). 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 has been agreed to reopen agricultural negotiations in 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. The new rules and obligations eventually will constrain further farm protection growth in both advanced and newly industrialized countries, thereby promising greater certainty and stability to international food markets next century.

**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 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. (1997a) 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, in the hope both of minimizing any slippage (particularly if/when China joins the WTO) and of making sure further progress is made in the next round of multilateral trade negotiations as it affects this still-highly protected group of products.

The WTO’s role in monitoring trade policies and providing information

One of the reasons protectionist trade policies persist is that the losers from those policies (suppliers of imports from abroad as well as domestic consumers and domestic producers of exportables) are poorly informed about the nature and extent of their loss. In so far as they underestimate the loss, so they under-invest in lobbying against such distortionary policies. In these circumstances there is an economic return to society from supplying more information on the effects of interventionist policies. Yet many governments choose to under-supply such information, presumably at the request of those interest groups gaining from incomplete transparency (Rattigan and Carmichael 1996).

The shortfall in national transparency agencies can be offset somewhat at least by the WTO Secretariat providing that service. It now does so, in the form both of annual notification requirements and of the Trade Policy Review Mechanism (TPRM). Notices of all changes in trade and trade-related policies must be published and made accessible to a country’s trading partners, which means that that information is also more accessible to groups within the protective country. For countries acceding to the WTO, particularly developing and former centrally planned economies, this requirement of WTO membership is a major step towards more transparent governance.
Begun on a trial basis during the Uruguay Round, the WTO reviews each country’s policies on a regular basis: once every two years in the case of the EU, the US, Japan and Canada, every four years in the case of the next 16 biggest traders, and every six years in the case of others except for the smallest and poorest developing countries where the interval may be longer). After extensive consultations in the national capital, the WTO Secretariat publishes its TPRM review together with a companion review by the government concerned. The process thus monitors the extent to which members are meeting their commitments and obligations, as well as providing information on newly opened trading and investment opportunities. These activities are not costless, however. On the contrary, they put a considerable strain not only on WTO Secretariat resources but also on delegates in Geneva and on staff in national capitals -- especially in smaller and poorer economies. Unless sufficient funds are budgeted for the provision of these public goods, the quantity and especially quality of their provision will suffer to the detriment of both global and national economies.

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 has been highly successful (Cameron and Campbell 1997). During that time developed countries have brought around 50 matters to the DSB, developing countries have brought more than 20 cases, and a further four have been 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).
Again, though, this public good is not costless. 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.

3. New and prospective challenges for the WTO

The above are but 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. 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.

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, AFTA, and APEC.

**Issues peripherally related to trade: environmental and labour standards**

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 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.

---

4 This sub-section draws on Anderson (1997c, 1998a) and Anderson and Blackhurst (1992).
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, 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 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. Supporters of the WTO therefore are tempted to say the institution should resist all attempts to become involved in these issues. That strategy is risky, however. While many developing countries might support it, we might see more aggressive unilateral use of trade measures by advanced economies against countries with lower social standards and/or 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 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 -- to see if trade reform might be part of the solution to the problem.

---

5 The latest 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.
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. In China's case the 'concessions' available to developing country WTO members are also being sought. The US and others are very reluctant to allow China those ‘concessions’, however, because that could effectively make meaningless the negotiated access to Chinese markets (Anderson 1997b).

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 cover the expanding number of items of key concern to them, is prohibitive without some financial and technical aid. 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 1997). But with so many new countries seeking membership and so many more issues to get on top of following the Uruguay Round, the budgets for those program may need to expand further, especially if a new round is launched soon.

In addition to the 30+ countries in the queue for membership currently, perhaps another 20 will apply soon. It takes up to six years to accede on average, so within another decade the WTO will have much the same membership number and composition as the United Nations. WTO began as a club of 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.

To understand how well the WTO club is managing its own globalization, consider the following four questions: to what extent are less-advanced economies (a) opening up to trade, (b) able to get their exports into markets of more-advanced
economies, (c) engaged in WTO activities such as improving the rules, and (d) able to accede expeditiously?

On the first question, the answer is generally yes. During the past decade or so an ever-larger number of developing countries – including in Africa -- have embraced trade liberalization. Some of those reform programs have been adopted with reluctance as conditions for receiving IMF or World Bank loans, while others have been unconditional unilateral decisions. Until they are bound under the WTO, though, there is a risk of back-sliding in the future. Furthermore, tariffs need to be bound at levels close to applied rates to be taken seriously, unlike during the Uruguay Round when many developing countries just committed to ceiling bindings at several times the level of applied rates.

On the second question, the answer is clearly no. The two sectors of most interest to less-advanced economies are agriculture and textile/clothing, and protection levels in more-advanced economies for those items are more than ten times the average on other merchandise. And even though commitments have been made in the Uruguay Round to lower those barriers, only modest reductions will have resulted by the turn of the century.

On the third question, the answer is that while there are ample opportunities for less-advanced economies to become engaged in WTO activities such as chairing committees, they are taken up infrequently. Michalopoulos (1998a) suggests that is because poor and especially small countries have few if any delegates in Geneva, and those that are there are relatively poorly serviced by their national capitals and so are always over-stretched. The pooling of efforts by members forming a group has been one way of coping. Perhaps further aid funding is warranted for the smaller and least-developed countries to raise the quality and quantity of representation by them.

As to the final question concerning the pace of accession of new members, the answer is unclear. Certainly an average time of six years to accede sounds long, and certainly politics may have contributed as with China. But much of the delay appears to be on the part of the acceding country. Sometimes this is because of a lack of internal political support to push ahead with reform commitments. More often it is because of insufficient bureaucratic horse-power to get on top of the issues and to move the necessary papers forward any faster (Michalopoulos 1998b). The obvious solution is to raise the quantity and quality of staffing in national capitals, and in particular to boost training. Further education is needed not only about the WTO institution but also in analytical capability. The domestic political commitment to do that may not be in place, however, in which case the question again arises as to whether more development assistance funds need to be directed to that cause.
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.6 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. 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'.

Integrating foreign investment and competition policies 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, the OECD's initiative in this area, the current Asian financial crisis, 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

---

6 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.
many anti-competitive practices are the actions of private producers rather than of
governments.\footnote{For an extensive coverage of this issue, see Graham and Richardson (1997).}

The Singapore ministerial Declaration stated "It is clearly understood that
future negotiations, if any, regarding multilateral disciplines in these areas, will take
place only after an explicit consensus decision is taken among WTO members
regarding such negotiations." In the case of investment at least, that is likely to come
sooner rather than later, because already the OECD has drafted a Multilateral
Agreement on Investment and UNCTAD too has a substantial role in setting standards
and monitoring developments in the area. Since the European Union is very keen to
see a broader multilateral investment agreement embedded in the WTO, this is bound
to be something developing countries will use to bargain for better deals on
agriculture and textiles early next century.

An important aspect of the growth of foreign investment is associated with the
globalization of production. With the decline in trade barriers (governmental as well
as transport and communication costs) has come greater scope for firms to break up
the production process into sub-processes located in different countries (Markusen
1997). The resulting FDI and intra-firm trade in components/intermediate inputs has
contributed to the trebling of trade as a share of global output since 1950 (from 7 to 22
per cent), with intra-firm trade of multinational corporations now accounting for two-
thirds of world trade, according to WTO Director-General Ruggiero (1997).

One of the implications of this phenomenon for the WTO has to do with
dispute settlement. Since member governments are the complainants or respondents in
WTO panel cases, the question arises as to which member government should look
after the interests of a particular multinational firm. In the WTO’s latest dispute
settlement case against the EU’s banana regime, for example, the Unites States (which
grows almost no bananas) was a complainant ostensibly because of its interest in
services associated with EU banana imports from Latin America, but presumably also
because a major producer of bananas in Latin America is a US multinational firm. The
dispute settlement system is not well designed for this reality of multinationals having
much of their production in other than their host country. Nor is it designed to cope
with the inevitable conflicts that will arise between host governments and
multinational firms (Graham 1996), including those involving bribery and corruption
(Elliot 1997).

Another area where deregulation and rapid technological change are
combining to create newly tradable products has to do with the supply of electricity.
The reform of policies that held energy (especially coal) prices low in developing
countries and high in some high-income countries, the privatization and/or de-
monopolization of utilities supplying electricity, and the advent of small-scaled, natural gas-fired generators along with advances in information technologies have combined to make electricity a much more tradable product in recent years (The Economist, pp. 65-67, 28 March 1998). Likewise, privatization of water, sewerage, health and education services all open up new areas of international trade and/or investment where WTO disciplines and market access negotiations are relevant. As with government procurement (for which so far only a plurilateral agreement has been secured among a subset of WTO members) and telecoms, both nationalist and protectionist forces will resist efforts to bring these big-ticket items under the WTO.

The changing nature of services trade

The above-mentioned recognition of the need to address investment and competition policy issues in the WTO coincides with a new appreciation of a difficulty with the General Agreement on Trade in Services (GATS). 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.

More fundamentally, the impact of the information revolution in lowering communication and computing costs is adding a whole new dimension to global economic integration (Ruggiero 1997). Just as the globalization of goods trade and investment changed the face of manufacturing in the 1980s, so this digital revolution (again 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 leapfroging 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 relative to differences in endowments of traditional factors of production.

This phenomenon underscores the significance of the telecom services, financial services and information technology agreements signed by WTO members in the past year and the TRIPS agreement of the Uruguay Round. They represent the beginning of systematic reform of those very sectors that are crucial for making the most of the information revolution. But this phenomenon also calls into question the adequacy of the GATS and the TRIPs agreement in the light of the recent and forthcoming explosion in electronic commerce (WTO 1998), something that may have to be addressed when GATS and TRIPs are reviewed at the end of this decade.

**Dealing with the recent backlash against globalization**

Not surprisingly, the accelerated pace of globalization in the past 15 or so years, to which both new information technologies and policy reforms have contributed, has generated resentment by some groups in numerous countries. In the richer economies the greater flow of imports from and FDI to newly industrializing countries are alleged to be causing job losses and/or lower relative wages for less-skilled workers in those rich countries (when really the main cause is probably the new information technologies). And most recently the openness to trade and FDI flows in East Asian economies is said to have left them vulnerable to the whim of international financial markets and now to IMF conditionality as they accept loans contingent on strict policy reforms being adopted and kept in place.

Whatever is behind each of these developments, proponents of globalization ignore them at their peril (Rodrik 1997). Appropriate reactions might include the following, according to Blackhurst (1997):

- governments need to make it more widely understood that while policy reforms are good for the overall economy there will always be some groups who benefit less than others and some of those may even be made worse off if not compensated;
- it also needs to be better understood that while globalization can bestow huge benefits on participants, it also raises the cost of bad policies (as some East Asian countries have learnt, the hard way, during recent months); and yet
increased protectionism and resistance to further policy reform will make matters worse, particularly if it slows the extent to which a country can take advantage of the information revolution.

4. 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 ongoing implementation of the commitments made in those various agreements all indicate that the rules-based multilateral trading system is very much alive and well in its 50th year. The strong desires expressed at the political level of the WTO Ministerial Meeting in Singapore in December 1996, to continue to strengthen the system, also is reassuring for the institution’s future. Yet as the previous two sections indicate, a huge built-in work program and many new challenges confront the WTO collective: delegates in Geneva, their support staff and masters in national capitals, and Secretariat staff.

Moreover, 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. This has been demonstrate empirically by Francois and McDonald (1996) with recent global modelling results. In particular, they make clear that:

- some manufactures will still have high tariffs (offering even higher effective rates of protection), including for processed primary products exported by developing countries,
- even though non-tariff barriers on imports of agricultural products have been tariffied, because of ‘dirty tariffication’ those tariffs will still remain high at the end of the implementation period (2000 for developed countries, 2004 for developing countries) and farm producer and export subsidies will be tolerated rather than outlawed and will only be reduced by about one-fifth or less;
- non-tariff barriers remain on numerous manufactures and the threat of contingent protection in the form of antidumping duties remains considerable in some markets, most notably textiles and clothing where reneging on Uruguay Round commitments is a real possibility especially if China and Vietnam join the WTO and India continues to open up;
- services trade barrier reduction commitments remain very limited and those agreed to will have barely begun to open the service sector to trade by the turn of the century;
the government procurement agreement is only plurilateral rather than multilateral and so is only a beginning to freeing up to international competition that very considerable portion of each nation’s economy; and
great scope still remains for trade facilitation measures, especially in developing countries where customs procedures and the like continue to make trading difficult.

Given the plethora of issues needing to be addressed by the WTO, and the built-in agenda for reviews of the agriculture, SPS, technical barriers, services and TRIPs agreements by 2000 anyway, the case for launching a comprehensive round of multilateral trade negotiations early next century is compelling.

For that to occur, the non-trivial task of building a consensus among WTO members to launch that round needs to begin immediately. Sir Leon Britten has already lent his support from the EU, and smaller advanced economies including Australia and New Zealand are strongly supportive. Many developing countries also would be willing participants, at least under certain conditions.8 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.

A key component of the latter requires building a stronger domestic constituency for national policy reform. That could be helped considerably by more analytical work (including using national and global economy-wide models) which clearly demonstrate the indirect benefits from trade liberalization. The capacity of the economics profession to do that well was made clear in the recent ex post evaluations of the Uruguay Round (see, for example, the project that culminated in the Martin and Winters (1996) World Bank conference volume). Now is the time for similar but ex ante analytical evaluations for a millenium round, with follow-up dissemination and training seminars to spread the findings widely.

However, a new round of multilateral trade negotiations is not going to happen without the United States government behind the idea. Unfortunately, trade policy is not currently high on the present US administration's agenda (Schott 1998). Hopefully the various 50th birthday celebrations for the GATT during 1998 will, among other things, at least bring the issue to the attention of the United States (and any other member that has yet to see the need to consolidate the WTO's very considerable

---

8 Those developing countries that are Cairns Group members are especially anxious that the agricultural negotiations scheduled to re-start next year be part of a more comprehensive round so that intersectoral and cross-issue trade-offs are possible.
achievements in its first two plus years). Having the next WTO ministerial meeting in the United States in autumn of 1999 should help. Would dubbing it the Clinton Round raise US interest enough for the current administration to commit to launching a new comprehensive round before the next presidential election in 2000?
References


Table 1: Uruguay Round tariff bindings and actual tariff equivalents of agricultural protection, European Union and United States, 1986 to 2000

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>European Union</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wheat</td>
<td>68</td>
<td>109</td>
<td>36</td>
<td>1.60</td>
<td>1.60</td>
</tr>
<tr>
<td>Coarse grains</td>
<td>89</td>
<td>121</td>
<td>36</td>
<td>1.42</td>
<td>1.36</td>
</tr>
<tr>
<td>Rice</td>
<td>103</td>
<td>231</td>
<td>36</td>
<td>2.36</td>
<td>2.24</td>
</tr>
<tr>
<td>Beef and veal</td>
<td>97</td>
<td>87</td>
<td>10</td>
<td>1.00</td>
<td>0.90</td>
</tr>
<tr>
<td>Other meat</td>
<td>27</td>
<td>34</td>
<td>36</td>
<td>1.32</td>
<td>1.26</td>
</tr>
<tr>
<td>Dairy products</td>
<td>147</td>
<td>205</td>
<td>29</td>
<td>1.63</td>
<td>1.39</td>
</tr>
<tr>
<td>Sugar</td>
<td>144</td>
<td>279</td>
<td>6</td>
<td>1.27</td>
<td>1.94</td>
</tr>
<tr>
<td><strong>ALL AGRIC.</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unweighted av.</td>
<td>45</td>
<td>73</td>
<td></td>
<td>1.61</td>
<td>1.63</td>
</tr>
<tr>
<td>std. deviation</td>
<td>57</td>
<td>96</td>
<td></td>
<td>1.58</td>
<td>1.68</td>
</tr>
<tr>
<td><strong>United States</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wheat</td>
<td>20</td>
<td>4</td>
<td>36</td>
<td>0.30</td>
<td>0.20</td>
</tr>
<tr>
<td>Coarse grains</td>
<td>2</td>
<td>2</td>
<td>74</td>
<td>2.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Rice</td>
<td>2</td>
<td>3</td>
<td>36</td>
<td>5.00</td>
<td>1.50</td>
</tr>
<tr>
<td>Beef and veal</td>
<td>2</td>
<td>26</td>
<td>15</td>
<td>10.33</td>
<td>13.00</td>
</tr>
<tr>
<td>Other meat</td>
<td>1</td>
<td>3</td>
<td>36</td>
<td>0.67</td>
<td>3.00</td>
</tr>
<tr>
<td>Dairy products</td>
<td>46</td>
<td>93</td>
<td>15</td>
<td>1.09</td>
<td>2.02</td>
</tr>
<tr>
<td>Sugar</td>
<td>67</td>
<td>91</td>
<td>15</td>
<td>1.50</td>
<td>1.36</td>
</tr>
<tr>
<td><strong>ALL AGRIC.</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unweighted av.</td>
<td>13</td>
<td>23</td>
<td></td>
<td>1.44</td>
<td>1.77</td>
</tr>
<tr>
<td>std. deviation</td>
<td>22</td>
<td>35</td>
<td></td>
<td>1.20</td>
<td>1.59</td>
</tr>
</tbody>
</table>

\(^a\) Announced base tariff rate as a ratio of actual tariff equivalent in the base period.