

---

## Setting the Course

Jeffrey J. Schott

By 2000, world trade in merchandise goods and commercial services will likely exceed \$8 trillion, or \$2 trillion more than was transacted in 1995.<sup>1</sup> By that date, the World Trade Organization (WTO) will likely have more than 130 member countries, which account for about 95 percent of world trade. In short, WTO rights and obligations will apply to an ever increasing share of global trade and output.

The start of the millennium also will mark an important milestone for the WTO. By that date, assuming WTO members adhere to their Uruguay Round commitments, new WTO negotiations on agriculture and services will be under way with the goal of achieving the progressive liberalization of remaining barriers to trade. In order to make headway in the new negotiations in these politically sensitive sectors—part of the WTO's "built in" agenda—countries will have to put together a sizable package of other issues to allow for the trade-offs needed to build political support at home for reforms of the long-entrenched barriers in these sectors.

For that reason, WTO members will be engaged in a new "round" of trade talks by 2000, whether it is called that or not. I will refer to this process of multilateral negotiations as "WTO 2000."

This chapter explores how WTO members should prepare for these negotiations. It first discusses the Singapore ministerial and its importance in starting WTO deliberations. Next, it examines how the agenda of such

---

1. In 1995, world merchandise exports totaled \$4,875 billion, and world exports of commercial services totaled \$1,230 billion. Projections for 2000 assume average annual trade growth will be the same as for merchandise trade over 1990-95, or 6 percent per annum (*WTO Focus*, May 1996, 2-3).

talks should be crafted to meet the challenges to the trading system discussed in chapter 1 and proposes initiatives to achieve additional trade reforms and to extend WTO obligations to other trade-related aspects of government policy not yet subject to WTO norms. The chapter then explores whether there is sufficient political support for new trade reforms in the major trading nations. The chapter concludes with recommendations on how a new WTO 2000 initiative could be launched and implemented over the next few years.

## The Singapore Ministerial

The WTO has made substantial progress in administering the Uruguay Round agreements. But that is not enough. While the Uruguay Round accords strengthened the multilateral trading rules and the WTO dispute settlement mechanism, some provisions remain vague or incomplete, and some public policies remain outside the purview of the WTO system. These shortcomings provide a breeding ground for renewed efforts to circumvent or undo past liberalization commitments.

For that reason, WTO members cannot bask in past glory. The trading system needs constant maintenance for it to operate effectively. The existing rules provide a good roadmap for conducting world trade, but potholes need to be filled and new roads built to accommodate the increasing traffic of global commerce. In other words, the WTO must continue to adapt its rights and obligations to keep pace with the changing nature and expanding scope of global trade in goods and services.

Fortunately, the new institutional structure of the WTO enables countries to avoid the pitfalls of the GATT regime, which required lengthy delays before preparations for new initiatives could be launched. Article IV:1 of the agreement establishing the WTO states that the "Ministerial Conference . . . shall meet at least once every two years" and "shall carry out the functions of the WTO and take actions necessary to this effect." These are two of the functions of the WTO listed in Article III of the WTO agreement: to "facilitate the implementation, administration and operation, and further the objectives, of this Agreement and of the Multilateral Trade Agreements. . ." and to "provide the forum for negotiations among its Members concerning their multilateral trade relations." The latter explicitly covers issues the WTO already deals with, plus negotiations on other issues if the ministerial conference decides such talks are desirable.

The first meeting of WTO ministers, to be held in Singapore in December 1996, is particularly important for three reasons. First, the Singapore meeting provides the first opportunity for an in-depth review and assessment of current WTO operations. Such stock taking is important to establish a

baseline to gauge the effectiveness of current rules and to delineate problem areas or omissions that need to be redressed.

Second, the Singapore ministerial will establish precedents for future meetings. If the meeting produces substantive results, it will become a focal point for the management of the trading system. But if its main yield is limited to consultation and assessment of current WTO activities, it will soon devolve into a political photo opportunity, as the G-7 summits have.

Third, the ministerial allows member countries to develop policy guidance for the WTO for the near to medium term. Singapore Trade Minister Yeo Cheow Tong (see appendix) has suggested that the ministerial be regarded as a meeting of the “board of directors” of the WTO and should “at its inaugural meeting, set the direction, the tone and the pace of how the WTO will work towards fulfilling its mission.” Stock taking is a necessary part of that exercise but provides only the starting point for the critical work that trade ministers need to address. In that regard, the APEC trade ministers’ meeting in New Zealand in July 1996 agreed that their “key task at the Singapore Ministerial would be to establish a work programme for future liberalisation in the WTO.”<sup>2</sup>

Realistically, there is a limit to what a grand assemblage of 120 or so trade ministers can do. Clearly, they cannot negotiate. They can, however, provide political support and impetus for current WTO work and new initiatives, and they can mandate reports and the formation of working groups to lay the substantive foundation for future negotiations. In a few areas described below, they could also initiate or accelerate negotiations on trade and investment reforms.

Finally, and perhaps most importantly, trade ministers convening at Singapore could and should begin defining a long-range vision for WTO initiatives. They could follow the examples of the Asia Pacific Economic Cooperation (APEC), which in its long-range plan committed its members to free trade and investment in the region by 2010 and 2020; Malaysia’s Vision 2020, which set a target for achievement of developed-country status; and the Summit of the Americas in December 1994, which heralded a Free Trade Area of the Americas by 2005.

Drawing on the commitments already made by WTO members in their regional pacts, the WTO should seek to “globalize” these efforts and declare its intent to achieve the eventual elimination of all tariffs and other border restrictions by a fixed date.<sup>3</sup> Many of the world’s major

---

2. The “Statement of the Chair,” issued at the end of the APEC meeting, is reprinted in *Inside U.S. Trade*, 19 July 1996, 21-22.

3. Bergsten (chapter 14) presents a detailed analysis of this goal and how it could be implemented. Martin Wolf (1996, 12) offers a similar argument and proposes that ministers should commit at Singapore to the “[a]bolition of all barriers to trade at the border, by no later than 2020.”

trading nations (accounting for more than 60 percent of global trade) already have done this in the context of regional initiatives, so a WTO initiative could meld together these regional commitments into a coherent multilateral package.

This objective of developing a vision for the world trading system has already been endorsed in principle by WTO Director General Renato Ruggiero and EU Commissioner Sir Leon Brittan at the World Trade Congress in Singapore in April 1996. Because some countries continue to suffer from an astigmatic resistance to policy planning, however, it may be better if WTO members establish an independent group to do their initial work and to shoulder the blame and criticism for reaching beyond the current grasp of political leaders. Such a group could follow the ample precedents of the GATT Wisemen's Group, assembled in 1983 to develop the blueprint for new multilateral negotiations (Leutwiler et al. 1985), and the APEC Eminent Persons Group (1993, 1994, 1995), which first put forward APEC's ambitious vision of free trade and investment in the Asia Pacific (that was adopted at Bogor in November 1994) and then recommended how APEC leaders could implement such commitments.

## The WTO Agenda to 2000

To accommodate the diverse interests of its large membership, the WTO agenda must be balanced and incorporate both traditional trade issues such as tariffs and new behind-the-border regulatory issues. To meet the current challenges facing the trading system noted in chapter 1, the agenda must be comprehensive and address the problems of residual protection, proliferating regionalism, inadequate WTO rule making in areas subject to domestic regulatory disciplines, and administration and management of the WTO itself.

Putting together a balanced, comprehensive package of initiatives is essential to engage all WTO members in a serious negotiation. To be successful, the talks must hold out the prospect of benefits for every participant. Proposals that focus exclusively on new issues or only on liberalization of traditional trade barriers will not provide sufficient scope for such a *reciprocal* deal. The Quad countries (Canada, the European Union, Japan, and the United States) need to recognize this and plan their negotiating strategies accordingly.

At the risk of oversimplification, the WTO agenda needs to address several broad objectives if it is to command political support in the major trading nations (discussed further in the next section). Developed countries need greater opportunities to compete in the rapidly expanding markets of Asia and Latin America, and they need new rules to discipline domestic regulatory practices that raise obstacles to the free flow of trade *and* investment in goods *and* services. Developing countries need more

liberalization of trade barriers that block their exports to industrial-country markets and also would benefit from revised rules to secure such improved access. Indeed, progress toward eliminating residual protection probably will be a prerequisite for expanding the coverage of WTO rule making.

The built-in agenda mandated by the Uruguay Round accords provides a solid core of issues for the WTO agenda that member countries have already agreed to undertake by 2000. However, the built-in agenda is not comprehensive and needs to be supplemented by important issues that were omitted from the preestablished WTO work program because of inadvertence (e.g., liberalization of industrial tariffs), inadequate preparation (e.g., competition policy), or inadequate consultation (e.g., labor standards).<sup>4</sup>

To be sure, such an expanded agenda raises concerns about taking on too much at once and thereby delaying the launch and resolution of new WTO negotiations. However, not all issues are ripe for action today, and some will likely require protracted negotiation. Since the WTO provides a forum for continuing negotiations, these subjects can be included on the broad WTO agenda without causing the lengthy delays that marked previous GATT rounds.

WTO 2000 must be a multistage process, with the seamless linkage of one package of agreements to continuing negotiations on another, and resolution of some issues extended beyond 2000 (discussed further below). To achieve balanced, comprehensive trade reform, the WTO 2000 negotiations should focus on four broad goals mentioned earlier: reducing residual protection, expanding the coverage of WTO rights and obligations to trade-related aspects of government policies not yet covered by WTO rules, linking regional and multilateral trade initiatives, and fine-tuning WTO institutional reforms.

## Reducing Residual Protection

As Gary Hufbauer details in his series of studies on the costs of protection in various countries, protectionism remains a common and costly practice in both industry and agriculture (see chapter 2). The steady reduction of barriers to trade in goods and services should thus continue to receive high priority on the WTO agenda. Where feasible, liberalization should follow the 50 percent rule: that is, all transition periods and remaining barriers should be cut in half. WTO efforts should focus on accelerating implementation of Uruguay Round reforms, making new tariff cuts, liber-

---

4. Australia has suggested that “the Built-in Agenda represents the framework for conducting another comprehensive set of multilateral trade negotiations from 1999/2000” and should be complemented by new negotiations on industrial tariffs (*Inside U.S. Trade*, 14 June 1996, 13-14).

alizing restrictions on government procurement, and preparing and implementing ongoing and/or new negotiations on agriculture and services.

## Accelerated Uruguay Round Reforms

Most Uruguay Round commitments are scheduled to be implemented over a five- to ten-year period that started in January 1995. As trading firms begin to adjust to more open competition in anticipation of liberalization, their actions often encourage governments to implement agreed reforms sooner than required by the WTO. In some cases, countries have already accelerated some of their trade reforms in response to requests from domestic industries that need lower-cost imported components to boost their global competitiveness.

For that reason, WTO members should commit to speeding up the reforms they have already committed to implement in the Uruguay Round, as the APEC countries pledged to do in November 1994 in the Bogor Declaration and actually began to do at Osaka in November 1995. These commitments could serve as an important down payment for future WTO trade reforms.

However, one should not expect a uniform approach to accelerated reforms. Each country undertook different obligations in the Uruguay Round to liberalize its trade, and thus each country will have different requirements for fulfilling commitments to accelerate the implementation of those reforms.

Nonetheless, all reforms should be implemented on a most-favored nation (MFN) basis, consistent with GATT Article I.<sup>5</sup> Particular attention should be given to tariffs and textile reforms.

With a few notable exceptions, developed countries agreed to a maximum five-year period to implement tariff cuts. These cuts were quite extensive in percentage terms but generally involved only small reductions in the absolute tariff levels since existing tariffs applied against most manufactured goods (except textiles) are not very high. For example, average tariffs will be reduced by 2.7 percentage points in the United States, 4.4 percentage points in Japan, and 8.1 percentage points in Australia.

By the time WTO 2000 talks get under way, most of the Uruguay Round cuts will have been implemented. However, acceleration could still be useful in those cases where the commitments involve longer periods. For example, many US tariffs on textiles and apparel are subject to reductions phased in over ten years; some sectors subject to zero-for-zero tariff *elimi-*

---

5. The Association of Southeast Asian Nations (ASEAN) has supported this principle in the APEC context, and some members have incorporated it in implementing their ASEAN commitments.

nation also have longer transition periods (e.g., eight years for beer), which could be shortened following the 50 percent rule.

Accelerated liberalization in the textile sector poses a more difficult political problem. Current quotas under the Multi-Fiber Arrangement (MFA) have generated strong vested interests in importing countries as well as in many exporting countries in favor of prolonging protection.

As a practical matter, the WTO-mandated 10-year transition period for the phase-out of textile quotas may need to be maintained to avoid disrupting the trade of many developing countries and provoking a strong protectionist backlash in the developed countries. However, developed countries could still apply the 50 percent rule to accelerate the pace of liberalization within the 10-year period, especially since the bulk of the reforms are not required to be implemented until the end of the period.

For example, developed countries could increase by 50 percent the percentage volume of imports covered in each of the succeeding stages of MFA reform set out in the WTO accord. Countries have already removed quotas on products that accounted for 16 percent of the total volume of covered imports in 1990. The second stage could remove quotas on an additional 25 percent (instead of 17 percent), the third stage could remove another 27 percent (instead of 18 percent), and the final 32 percent (instead of 49 percent) could be lifted at the end of the 10-year period. Textile reforms in the Uruguay Round were linked to a significant extent to the long transition periods in the Trade-Related Aspects of Intellectual Property Rights (TRIPs) accord, so efforts to accelerate these commitments probably would require commensurate action in both areas.

## New Tariff Initiatives

Even if Uruguay Round reforms are accelerated, major obstacles will remain in some product sectors protected by high tariffs. In addition, low tariffs in other areas will remain a nuisance for traders by imposing administrative costs often equal to or greater than the tariff itself.

The best way to address both of these problems is to adopt a simple and straightforward formula. For nuisance tariffs, WTO members should commit to immediately eliminate all tariffs of 2 percent or less. Canada and Sweden have already proposed such actions as part of broader trade facilitation programs.

For tariff peaks, countries should apply the 50 percent rule and commit to cut in half within five years all of their post-Uruguay Round tariffs that exceed 15 percent (including agricultural tariffs).<sup>6</sup> Such a scheme would require large reductions in farm levies but still leave many important products shielded by tariffs above 50 percent.

---

6. The Quad countries made a similar pledge regarding reductions in peak *industrial* tariffs during the final stages of the Uruguay Round in July 1993 (Schott 1994, 62).

Where possible, tariff reforms should be extended by sector to achieve the total elimination of duties, thus building on the precedent of the “zero-for-zero” talks in the Uruguay Round. The United States and others have sought such results in the information technology sector. Other sectoral candidates include holdovers from the Uruguay Round that failed either because of reciprocity concerns (e.g., semiconductors) or strong latent protectionism (e.g., wood products). As in services, however, these sectoral tariff negotiations cannot be self-standing initiatives because any one sector lacks the necessary scope for a reciprocal deal. For a successful outcome, sectoral talks must be linked to a broader liberalization package.

To a large extent, tariff concessions by developing countries in the Uruguay Round involved the binding of tariffs above applied rates (so-called ceiling bindings). To supplement those obligations, developing countries could commit to gradually reduce the gap between their bound rates and their currently applied rates. For example, countries could agree to cut in half the gap between their applied and bound tariff rates within five years and then establish their bindings at this intermediate level (e.g., if a tariff is set at 10 percent, but bound at 30 percent, the new binding would fall to 20 percent). Within 10 years, the tariff bindings could then be lowered to the applied rates.

## Government Procurement

Few countries adhere to the WTO accord in this area; it is one of four pacts that do not require universal membership. Opening government procurement to foreign competition could benefit WTO members in several ways: exporters could potentially reap major trade gains if they were able to bid on foreign government contracts, WTO member governments would get more bang for their buck for their contracts, and compliance with WTO standards would expose and perhaps even constrain corruption in the letting of those contracts. Indeed, government procurement talks could be an important steppingstone to future anticorruption initiatives in the WTO.

The first steps that need to be taken are to accelerate the launch date of the next round of WTO talks on government procurement (now scheduled to begin in January 1999) and to get more countries engaged in those talks. To do so, current signatories to the Government Procurement Agreement (GPA) need to consider offering interim membership to other WTO members that lets them phase in the GPA obligations, starting with transparency provisions (for all national/federal contracts above a specified threshold) and followed by progressive increases in entity coverage.<sup>7</sup> The public spotlight on government contracting will not guarantee that foreign firms can compete for those sales, but it would expose

---

7. For additional thoughts on GPA reforms, see Gadbow (part VI, comment).

abuses or cozy supplier relationships and thus support domestic reform efforts.

## Agriculture and Services

For practical political reasons, WTO members are unlikely to engage in new liberalization initiatives until the scheduled start in 2000 of new negotiations to augment the Uruguay Round reforms. Nonetheless, although France has blocked EU discussion of new farm reforms in Geneva, both the Cairns Group of agricultural exporting countries and ASEAN have urged ministers at Singapore to begin preparations for new WTO talks.<sup>8</sup>

Further farm reforms would greatly affect income and growth in both developed and developing countries. The WTO Committee on Agriculture should therefore examine different reform scenarios so that members can choose the most feasible and desirable areas for further liberalization.<sup>9</sup> These efforts should analyze both cuts in subsidies (including for environmental reasons, see below) and substantial reductions in the tariff rate quotas as well as the extremely high farm levies that emerged from the Uruguay Round tariffication exercise.

In services, WTO members face the immediate challenge of resolving the impasse in sectoral negotiations on financial services and basic telecommunications by the target completion dates in 1997. However, there is no logical reason those talks need to be resolved in 1997 and, as argued in the introductory chapter, good reason to fear that the talks will come up short. The complexity and importance of these sectors argue for the patient development of a more comprehensive agreement than is likely to emerge from WTO efforts in 1997.

The likelihood of success would increase markedly if WTO members modified their approach to the service sector talks by linking together the negotiations on the individual service sectors with other WTO liberalization initiatives. Such a strategy would encourage developing countries to augment their commitments in those service sectors since they would be getting something tangible in return from the developed countries. The new, improved deal would entail developing-country commitments to broader financial services and telecom reforms in return for industrial-country MFN commitments in those sectors and accelerated implementation of specified Uruguay Round liberalization in some manufacturing and/or agricultural sectors.

---

8. At their meeting in Cartagena in June 1996, the Cairns Group "Ministers indicated their clear readiness to begin negotiations at an earlier date, if a consensus to do so could be achieved" (*Inside U.S. Trade*, 21 June 1996, 14-15).

9. WTO members should learn from the experience of the Uruguay Round, which labored aimlessly for four years while countries examined various liberalization options.

Moreover, this approach need not delay the implementation of desired service sector reforms. Given the timing of the sectoral negotiations, packaging the service-sector talks with other initiatives could be offered by the prospective meeting to celebrate the 50th anniversary of the GATT/WTO in late 1997 or early 1998 (the later date would be preferable to accommodate the financial services deadline).

In addition, GATS negotiations on the inclusion of government procurement in services are due to start in 1997, and the next round of negotiations to increase specific liberalization commitments is scheduled to start in January 2000. The paucity of liberalization commitments achieved in the Uruguay Round should lead WTO members to rethink their approach to new services trade reforms. The experience of regional arrangements that include comprehensive obligations on services, such as the North American Free Trade Agreement (NAFTA) and the Australia-New Zealand Closer Economic Relations pact (CER), suggests that future reforms in the General Agreement on Trade in Services (GATS) should avoid self-standing sectoral negotiations and adopt a negative-list approach to exceptions to national-treatment and MFN obligations (chapter 11).

## **Expanding the WTO Agenda**

For the past three decades, the GATT has augmented its rights and obligations by negotiating accords on “new issues” that were becoming increasingly relevant to the conduct of world trade. This “relevance” test essentially translates into a “trade effects” test: national policies and practices are appropriate for WTO review if they have a significant effect, either directly or indirectly, on trade flows. By this standard, new issues will likely continue to be brought before the WTO because an increasingly broad array of policies now affect global trade in goods and services.

In this regard, WTO initiatives in new areas are appropriate, even if the WTO is not the main forum to address those issues. Such situations require close consultation between the responsible national, regional, and international bodies to ensure that actions by one organization do not undercut efforts in others. It follows that issues should not be added to the WTO agenda simply to legitimize the use of trade sanctions to enforce nontrade obligations in other agreements.

Four new issues deserve immediate attention, even if all of them are not yet ripe for negotiation: investment, competition policy, environment, and labor standards. None is actually entirely new to the trade agenda, but all need to be revisited in light of the trade problems arising from new policies in each area.

### **Investment**

As a result of globalization, trade and investment issues are increasingly intertwined (Graham 1996). Investment restrictions not only can distort

capital flows but can erect effective barriers to market access for goods and services. For that reason, new WTO rules on investment are essential to avert backdoor investment protectionism from undercutting trade liberalization commitments.

To be sure, the United States, among others, resists launching new WTO talks pending completion of the current negotiations in the Organization for Economic Cooperation and Development (OECD) on a Multilateral Agreement on Investment (MAI). In part, OECD members are reluctant to negotiate with developing countries for fear that they would seek to “water down” the MAI obligations regarding inter alia national treatment, rights of establishment, and enforcement—just as they did in the development of some of the APEC investment principles (APEC 1995, 66-70).<sup>10</sup> Instead, they intend to open the MAI to signature by all countries after the negotiations are completed.

The OECD approach naively assumes that nonmember countries would be eager to sign the MAI, even though they did not participate in the negotiations and would be asked to change their domestic policies in return for little tangible change in industrial-country practices.<sup>11</sup> More likely, developing countries will not join, and the MAI will apply only to the countries whose investment regimes already comply in large measure with the emerging disciplines.

In light of the May 1997 deadline for completing the MAI,<sup>12</sup> there is little risk that WTO work on investment issues—even if launched at the Singapore meeting—would interfere with the OECD negotiations. WTO members should agree to start work immediately on comprehensive investment rules to supplement the Trade-Related Investment Measures (TRIMs) agreement negotiated in the Uruguay Round. Both the NAFTA provisions on investment and the MAI could provide useful precedents for WTO efforts in this area.

As Graham succinctly argues in chapter 12, a WTO agreement on direct investment (ADI) could well parallel MAI obligations and differ significantly only in terms of the breadth and scope of negotiated exceptions. In addition, an ADI could integrate the investment obligations of other WTO accords (e.g., the GATS and TRIMs) and link them with the WTO dispute settlement mechanism. If foot draggers attempt to block the WTO talks or weaken ADI disciplines, the other negotiating partners could

---

10. In contrast, OECD members are seemingly less concerned about high standards regarding investment incentives, which will probably not be covered at all by the MAI.

11. Attempts to force-feed these countries an MAI could prove counterproductive. Indeed, some countries may reject the MAI on principle because of its “made in the OECD” label!

12. To meet that deadline, however, OECD members will have to surmount several obstacles, including differences over national security provisions, which have been exacerbated by the current dispute over the extraterritorial application of US sanctions in the 1996 Helms-Burton and Iran/Libya laws.

proceed without them and conclude a plurilateral agreement (as done previously in government procurement) that would not bind nonsignatories but would obligate many more countries than the number likely to sign the MAI.

Some developing countries, led by India, oppose WTO talks for fear that new disciplines will constrain their development programs or place domestic firms at a competitive disadvantage vis-à-vis multinational enterprises. Most developing countries, however, have radically revamped their investment policies since the mid-1980s to attract foreign investors; indeed, the competition among countries for investment funds has become fierce. Thus, the Indian stance seems to be in a time warp.

## Competition Policy

In a sense, competition policy has always been on the agenda of the trading system, since the purpose of GATT/WTO rules is to promote more open competition in world markets. Whether and how the WTO rules could be extended to national competition policies remains unclear, however. As noted earlier, problems plague efforts to reconcile national competition practices and objectives with those of the trading system.

However, at least one aspect of competition policy meets the trade relevance test and, while contentious, is ripe for WTO examination: the nexus of competition policy and antidumping actions. WTO rules are designed to combat predatory practices by exporters (e.g., dumping) through the imposition of offsetting antidumping duties. While the incidence of antidumping cases has increased markedly over the past decade—not least due to the proliferation of antidumping laws in developing countries promoted by the Uruguay Round accord—there has been little evidence that exporters actually pursue predatory pricing or strategic dumping practices. Instead, as documented in numerous economic studies, the use of antidumping statutes has been manipulated by petitioners and administrators to promote anticompetitive conditions in the domestic market (chapter 13).

As a practical matter, attempts to amend the WTO antidumping rules to remedy this important problem are unlikely to bear fruit. Few countries want to reopen the antidumping text after the harsh experience of the Uruguay Round negotiations.

Messlerlin provides an innovative alternative (see chapter 13): require that countries certify that antidumping cases will not create anticompetitive conditions in the domestic market *before* antidumping statutes can be applied. Such a test could be triggered by “quantitative thresholds based on competition-oriented criteria” (e.g., industry concentration ratios) that could be developed by WTO members over the next few years in conjunction with their scheduled review of the antidumping agreement in 1998.

In addition, the WTO should set up a working group to examine national competition policies and their implications for trade and investment that would draw on the extensive research already conducted on this issue by the OECD and other groups. Such actions would complement WTO efforts to conclude an ADI, which Messerlin argues could be extremely important in increasing competition in the domestic market.

Because competition policies can have such an important influence on international trade and investment, the issue will likely figure more prominently on the WTO agenda in coming years. Indeed, allegations about anticompetitive practices such as monopolies, cartels, market foreclosure, and predation already intrude on WTO deliberations in several areas. For example, recent US-Japan trade disputes over auto parts and photographic film involve both traditional GATT issues such as national treatment and competition policy concerns about vertical foreclosure and market access. Similarly, many of the unresolved questions concerning Chinese accession to the WTO center on market-access issues that lie in the competition policy domain.

The WTO will come under increasing pressure to address these issues. Graham and Richardson (1996) suggest that WTO talks could begin by focusing on the principle of positive comity, by which trade officials of one country would be given formal standing to raise market-access concerns before competition authorities in another country. Naturally, unless member countries enact laws to promote greater competition in their domestic markets—and only about half of them currently have competition laws in place—WTO deliberations will not be very meaningful, so that needs to be the first step.

## Environment

Environmental issues are not new to the WTO in the sense that some are covered by WTO provisions regarding technical barriers to trade (TBT) and sanitary and phytosanitary measures (SPS). What is new is the effort to reconcile sometimes competing objectives of trade and environmental policies regarding problems not directly related to TBT and SPS standards (e.g., transboundary pollution).

The Committee on Trade and Environment (CTE) was established in January 1995 to address the nexus of trade and environment issues and was commissioned to report its recommendations to ministers at the Singapore meeting. CTE deliberations have focused primarily on three issues: the consistency of trade measures used to enforce obligations of multilateral environmental agreements (MEAs), the use of ecolabeling, and possible amendments to GATT Article XX to allow exemptions from WTO obligations for trade measures taken in pursuit of environmentally desirable goals. Unfortunately, WTO members seem to have been hamstrung by domestic politics in examining these issues, and the CTE report

is likely to contain few recommendations on appropriate WTO initiatives in any of these areas.<sup>13</sup>

If one sets the CTE agenda on the basis of the trade relevance test, then WTO members should start where trade and environmental goals directly intersect—the use of agricultural and energy subsidies (chapter 4). Expanded WTO disciplines in these areas could be designed to both improve market access and to support policies that reduce transboundary environmental problems. New WTO subsidies negotiations could impose special restrictions on the use of domestic subsidies for specified purposes, just as the Uruguay Round accord created special categories of rules for regional aids and research and development grants.

In addition, the WTO could address some environmental concerns by improving the transparency of WTO operations and affording greater representation and/or input by environmental groups in WTO activities. In practice, most GATT/WTO documents have been available in the trade press *before* they were received by many government officials in national capitals. The WTO has few secrets and keeps virtually none. For that reason, the resistance to prompt publication of GATT/WTO documents has never made sense; new WTO reforms announced in July 1996 should facilitate the “official” release of most documents and ease concerns of all but the most litigious environmentalists (*Inside U.S. Trade*, 26 July 1996, 17).

The other side of the transparency issue also should be addressed. WTO initiatives should be guided by input from an advisory group of experts on trade and the environment, as recommended by Esty (chapter 4). This group could help inform both deliberations of dispute settlement panels and prospective negotiating groups on subsidies and standards, and more generally in setting the WTO agenda—and would complement the trade expertise already available.

Finally, the CTE should continue work on two issues that dominated its earlier deliberations: MEAs and ecolabeling. Few actual conflicts between the GATT/WTO and MEAs have arisen, but problems could arise in the future where trade measures are used to enforce environmental pacts. The CTE needs to develop a core list of MEAs for which member countries would be allowed to seek WTO waivers if they imposed trade sanctions in support of MEA obligations. Waivers should not be granted, however, to exempt trade sanctions targeted at WTO members that are not signatories to those MEAs. In this area, waivers seem a more appropriate WTO solution than precedent-setting amendments to WTO obligations, as the European Union has proposed.<sup>14</sup>

---

13. Esty argues that CTE deliberations have also been hampered by the lack of significant participation by environmental experts and thus have generally focused on the trade side of the issue (chapter 4). This problem results from governments staffing their delegations to CTE meetings primarily with local Geneva trade diplomats.

14. This is one area in which I agree with India, which opposes amending the general exceptions from GATT obligations listed in Article XX to cover MEA trade sanctions.

Similarly, more work is needed on the issue of ecolabels, which are designed to inform consumer choice but which can set requirements that indirectly favor domestic producers. In this area and others, the CTE needs to develop a program of technical assistance for developing countries that do not have the administrative and technical means to comply with new environmental regulations, including labeling requirements.

## Labor Standards

Of all the issues proposed for the WTO agenda, the relationship of labor standards and international trade rules has provoked the most controversy. While WTO members generally support the adoption of high standards to protect the health and safety of workers and to promote amicable labor relations in their economies, they differ sharply as to whether the WTO is an appropriate forum to address the promotion of labor standards.

Labor standards is not a new issue in international trade. Indeed, there are ample precedents for using trade provisions to combat abusive labor practices, dating back at least 90 years to the Bern conference that prohibited the manufacture or trade in matches containing white phosphorus to safeguard workers against phosphorus poisoning (Charnovitz 1986, 62-64). GATT exceptions in Article XX already allow countries to impose trade measures against imports produced by prison labor, but the question of whether trade rules can promote adherence to other core labor standards remains unanswered.<sup>15</sup> For this reason, the establishment of a WTO working group on labor standards, as proposed independently by the United States and the European Union, is premature.

Instead, the Singapore ministerial should direct the WTO Secretariat to join with the International Labor Organization (ILO) to form a special task force to examine the types of domestic economic initiatives (e.g., employment and training subsidies, technical assistance to developing-country governments) that could promote the adoption and enforcement of higher labor standards and report back to ministers at their next meeting.<sup>16</sup> WTO members could then decide whether to set up a working group to examine how trade rules could support domestic initiatives on labor practices or whether exceptions from specific trade obligations (e.g., nonactionable subsidies) would be desirable. Such an initiative would introduce the issue of labor standards to the WTO agenda without committing members to new WTO negotiations on labor issues or raising the specter of trade sanctions.

---

15. The United States has proposed focusing on five core labor standards: freedom of association, right to organize and collective bargaining, ban on forced labor, ban on exploitative child labor, and nondiscrimination in employment (*Inside U.S. Trade*, 9 August 1996, 5).

16. Freeman proposes that joint WTO-ILO efforts could focus on two issues: voluntary labor standards labeling and labor conditions in export processing zones (see chapter 5).

## Reducing Regional Trade Discrimination

Regional integration agreements can reinforce multilateral liberalization, but they can also obstruct WTO objectives. In essence, regional pacts threaten the WTO system by discriminating against the trade of nonmembers and by imposing a crazy quilt of regional trading rules and customs regulations (including rules of origin). The purpose of WTO efforts in this area should be to reduce the trade discrimination resulting from regional preferences by broadening regional liberalization efforts to all WTO member countries.

The WTO already has taken a small step to address concerns that proliferating regionalism may undercut prospective WTO trade liberalization by establishing a Committee on Regionalism. The committee has begun to develop procedures for better monitoring of regional arrangements, but its ability to influence the direction of regional policies suffers from two inherent problems: susceptibility to the “glass houses” syndrome (i.e., the reluctance of Geneva delegates to slam their colleagues for discrimination that also is generated under their own regional schemes) and loopholes in the WTO provisions regarding regional pacts.

As Robert Lawrence points out in chapter 3, the problem is not so much the ambiguous drafting of WTO obligations as it is the absence of disciplines over regional trading rules (such as rules of origin and antidumping), which have a significant impact on trade. Consultations and monitoring by the new Committee on Regionalism are a necessary response to these problems, but insufficient. Two other WTO initiatives are needed.

The best and simplest solution would be to reduce MFN barriers to such a low level that regional preferences have little residual value. If MFN tariffs are low, there is little need to distinguish between the trade of regional partners and nonmember countries.

To that end, WTO members should commit to avoiding new trade discrimination by working with their regional partners to lower MFN trade barriers commensurate with their regional liberalization. Ruggiero (1996) notes that such a scheme would comply with both GATT Article XXIV on exemptions for regional arrangements and the MFN principle of GATT Article I.<sup>17</sup>

Second, WTO members should strengthen WTO rules and guidelines in areas that regional arrangements are prone to abuse. Two areas that merit particular attention are rules of origin and coverage of services (chapter 3).

Rules of origin are the termites in the woodwork of trade pacts and hide the most blatant trade discrimination generated by regional arrangements.

---

17. In fact, such commitments would go beyond the Article XXIV requirement not to raise barriers to third-country trade.

Indeed, trade negotiators often develop elaborate industry-specific rules to restore protection for particular sectors that was lifted by trade reforms elsewhere in the agreement. WTO members should nip this practice in the bud by simply banning or at least sharply limiting the use of industry or sector-specific origin rules.<sup>18</sup>

In addition, WTO members should augment the requirements of GATS Article V with regard to the coverage of service sectors. In two important respects, the GATS obligations in this area are much weaker than the comparable provisions for goods in GATT Article XXIV. First, regional trade pacts must cover a substantial number of service sectors, not substantially all trade. Second, regional partners are obligated only to avoid increases in discriminatory measures affecting intraregional trade in services (i.e., a standstill commitment) rather than to eliminate existing barriers to trade. In both areas, GATS rules need to be revised to parallel GATT provisions.

## **Fine-Tuning WTO Institutional Reforms**

There is understandable reluctance to revise or augment WTO procedures so soon after they were devised. Nonetheless, some reforms are required to implement Uruguay Round commitments, and others need to be considered to address problems likely to arise in the near future that could impair WTO operations. Specifically, there are two areas where immediate institutional reform is needed: accession of new members and cooperation with other international organizations.

### **Expanding WTO Membership**

The accession of new members to the WTO is not as easy as it was under the GATT. Candidate countries face more comprehensive obligations covering both trade measures imposed at the border and domestic policies that influence trade in goods and services. At the same time, special exceptions for developing countries have been sharply cut back. The entry bar has been elevated to record heights just as the demand for WTO membership has increased dramatically.

Thirty-one countries are now seeking membership in the WTO. The most prominent and contentious of these negotiations involves China.

China was an observer to the GATT during the Uruguay Round and began accession negotiations in conjunction with its market-oriented reforms in the late 1980s. Both initiatives suffered sharp setbacks in June 1989 with the massacre at Tiananmen Square in Beijing. Talks in GATT were frozen for several years. Subsequently, accession negotiations have

---

18. For other imaginative proposals to govern rules of origin, see the contributions by Paul Wonnacott and Gary Hufbauer in Bhagwati and Panagariya (1996).

been complicated by two developments: the broader scope of post-Uruguay Round trade obligations and added concerns and conditions relating to human rights in China and its democratic process.<sup>19</sup>

The open question on Chinese accession, both in the WTO and in China itself, is whether China is more likely to adopt and sustain economic reforms if it is granted early membership or if membership is delayed until policy reforms are undertaken. Murray Smith frames the issue quite well in chapter 10. Early entry offers the chance to influence policy development toward WTO norms, but if the terms of entry are ambiguous or if the transition period is protracted, there is sizable risk that WTO obligations will not be fully adopted. On the other hand, the longer the accession negotiations, the greater the discrimination against the trade of the candidate country (resulting from implementation of Uruguay Round reforms) and the less opportunity to shape the process of economic reform.

The long history of these GATT/WTO negotiations has inevitably politicized the accession process both within China and in key WTO member countries. To circumvent the baggage of past talks, the Singapore ministerial should establish an independent commission to advise Chinese economic officials and WTO negotiators on what steps should be taken in terms of policy reform and trade liberalization to ensure the consistency of Chinese policies with WTO obligations. The objective should be to support intensified accession negotiations in 1997. The commission's report should be submitted to the WTO General Council by June 1997. This timing would also enable the G-7 to consider these recommendations at its summit in Denver the following month.

Chinese accession requires this special procedure, but procedural reforms would be helpful for other entry negotiations as well. In particular, WTO members need to establish standardized entry requirements in terms of both substance and timing. To do so, they will need to draw on the extensive economic analysis of candidate countries conducted by the World Bank and the International Monetary Fund (IMF). In many cases, accession negotiations would be more focused if WTO staff could work with their IMF/World Bank counterparts to establish the baseline of economic reform needed to meet WTO obligations; such efforts should be a part of broader cooperation among these agencies.

### Promoting Coherence of Global Economic Policymaking

The signatories of the Uruguay Round accords in Marrakesh in April 1994 recognized the importance of "achieving greater coherence in global economic policymaking" and directed the WTO to cooperate with the IMF, World Bank, and other organizations to ensure that they all "follow

---

19. While keeping the door open to Chinese membership, the G-7, led by the United States, has insisted that China both meet WTO requirements and offer "significant liberalization commitments" (Lyons summit, June 1996, economic communiqué, para. 20).

consistent and mutually supportive policies” (Declaration on the Contribution of the World Trade Organization to Achieving Greater Coherence in Global Economic Policymaking, paragraph 5). Unfortunately, WTO governments did not back up these fine thoughts with additional resources that would permit the small WTO economic team to pursue joint initiatives with the IMF and World Bank.

Given the WTO’s staffing constraints and the clear indication that governments won’t expand WTO resources significantly, the WTO needs to draw on outside expertise to augment its analytical capabilities. Recognizing this, WTO Director General Ruggiero has already begun to work closely with other international bodies such as the OECD and the UN Conference on Trade and Development (UNCTAD) so that WTO members can take advantage of the wealth of existing information and analysis on the new issues confronting the trading system and on the trade and development policies of developing countries. In a similar fashion, the WTO could work more closely with the International Labor Organization (as noted earlier) and also rely more on expert groups such as the Permanent Group of Experts in the Subsidies Agreement or the Trade and Environment Advisory Group proposed by Esty (chapter 4).

Developing cross-organizational working relationships not only helps to buttress the WTO’s analytical capabilities, but also promotes consistent, coherent policies among those bodies. To further that process, it would also be useful for the WTO to set up a small office in Washington to work with the IMF and the World Bank, just as those groups have representation in Geneva. The WTO office should be headed by a deputy director general to ensure representation at high-level meetings at the IMF and the Bank. Such a facility would balance the access that the WTO already has at the OECD and UNCTAD due to its geographic proximity.

## Round or Roundup?

To agree on the numerous initiatives detailed above, WTO members will have to assemble a large negotiating package that permits trade-offs between sectors and issues. Without a critical mass of subjects on the table, negotiations will not yield sufficient commitments to new liberalization and rule making to justify major reforms in long-entrenched trade barriers and domestic policies. In short, WTO members need to pursue a grand bargain or talks will yield few bargains at all.

Does this mean that WTO 2000 should be organized like a traditional GATT round? At first glance, the thought is less than appealing to many trade officials, who echo the caution their predecessors expressed after previous GATT negotiations. Some advocate restraint because of negotiating fatigue, some claim indigestion from the implementation of current liberalization commitments, and others argue that sector- or issue-specific

talks should proceed in areas already ripe for new negotiations instead of waiting for agreement to launch talks on a broader array of subjects.

To these officials, “rounds” conjure up the notion of a fixed agenda, fixed duration (in principle), and fixed conclusion yielding a package of agreements on all the issues under negotiation.<sup>20</sup> They fear that the traditional approach to trade negotiations allows foot draggers to delay talks and to block expansion of the agenda. In that regard, they recognize that politicians demand immediate gratification and thus dislike the lengthy past GATT rounds.

In most respects, these arguments are suspect. First, there is little evidence that WTO members suffer from fatigue or indigestion; indeed, many countries continue to open their markets to foreign competition pursuant to domestic policy reforms as well as multilateral and regional commitments. Trade negotiators may be fatigued after their grueling binge in the Uruguay Round, but they usually rebound quickly upon return to Geneva. Second, ad hoc negotiations usually yield minimal results (as discussed earlier). Third, the Tokyo Round lasted almost eight years because governments did not negotiate for much of that period due to the impasse over agriculture.

The round naysayers are correct, however, in arguing that the new institutional structure of the WTO, which accommodates continuing negotiations, obviates the need for the “big bang” approach that marked the launch of past GATT rounds (e.g., the Tokyo ministerial in 1973, the Punta del Este Declaration in 1986). Hufbauer and Schott (1985, 89-91) noted the advantages of such a flexible arrangement for GATT talks more than a decade ago. But this does not necessarily mean that WTO negotiations do not require “big bang” conclusions to put a negotiating package together.

Are rounds passé? If not, how can WTO members square the circle, so to speak? In brief, WTO members should modify the concept of rounds and initiate instead a series of “roundups,” which would lasso together issues that are ready for closure while continuing negotiations on “stray” issues and adding new issues to the herd. Roundups would have the advantages of traditional rounds—cross-sector trade-offs and packaging of agreements so that negotiators can focus on the overall benefits of the deal and can avoid having to identify concessions given in one sector for those received in another.<sup>21</sup>

In essence, roundups would be consecutive rounds rolled together, thus avoiding the hiatus in negotiations that led to renewed protectionist

---

20. Note, however, that previous GATT rounds sometimes added new issues to the negotiating agenda after the talks were launched (e.g., counterfeiting in the Tokyo Round).

21. For the United States, the package of agreements reached at each roundup would presumably trigger new implementing legislation that would be somewhat smaller than the voluminous bills associated with recent GATT rounds.

pressures after past GATT rounds. In that regard, they fit well in the new institutional structure of the WTO, which now accommodates continuing negotiations with at least biennial reviews by ministers. WTO members could use these meetings as deadlines to foster interissue trade-offs in regularly scheduled roundups and to revise and augment the rolling WTO negotiating agenda.

## **Are New WTO Negotiations Politically Viable?**

Given the difficulty of concluding and ratifying the Uruguay Round accords, it is fair to ask whether the ambitious proposals noted above are feasible and can garner the requisite political support to ensure their acceptance. Some members may question the desirability of moving forward so soon after the conclusion of recent talks. In part, their resistance to new talks may reflect opposition to pursuing an agenda dominated by new rule-making initiatives that they give lower priority than continuing to liberalize trade in traditional manufacturing sectors, especially textiles. Some countries may also be straining from the administrative burden of implementing the Uruguay Round accords.

Despite such concerns, both developed and developing countries have a major stake in continued multilateral trade negotiations. For developed countries, new WTO talks hold the prospect of more open access to the markets of important high-growth economies. For developing countries, new WTO talks help to reinforce the rules-based trading system, which provides significant benefits for smaller countries. For all WTO members, new multilateral obligations provide insurance against policy reversals at home and abroad and thus help government officials resist the siren calls of domestic lobbies seeking to maintain or augment protection against foreign competitors.

In short, WTO negotiations keep the “bicycle” of trade liberalization upright and moving forward. This section examines the sources of support for, and opposition to, new WTO trade reforms in Europe, the United States, and East Asia.

### **Europe**

In Europe, officials of the European Union seem to focus more attention on internal market reform (especially European Monetary Union) and EU enlargement in Central and Eastern Europe than on liberalization of trade barriers on an MFN basis. Indeed, EU trade policy has suffered for years from such “attention diversion.” These regional priorities have imposed and will continue to impose significant adjustment burdens on European

economies and thus temper EU enthusiasm for additional liberalization of trade restrictions (which would increase competition in the EU market and exacerbate those adjustment pressures).

EU enlargement also raises the stakes and costs of further reform of the Common Agricultural Policy. The new EU members (Austria, Finland, and Sweden) may shift the internal EU balance mildly toward liberalization in manufacturing and services, but they also side with the foot draggers on farm reforms. French officials have adamantly refused to discuss agricultural liberalization in the WTO prior to the required start of talks at the end of the decade; EU farm ministers have also resisted including farm trade issues in negotiations on association and in free trade arrangements with countries in Eastern Europe, the Mediterranean, and Latin America.

Nonetheless, as Martin Wolf points out in chapter 7, protectionist pressures in Europe are surprisingly weak despite a protracted period of slow growth and high unemployment. Indeed, EU officials, led by Sir Leon Brittan, have championed recent efforts in the WTO both to develop new disciplines on trade in services and to launch WTO negotiations on investment issues. Political leaders in many of the EU member states, in part reflecting trade union concerns about runaway plants and unbridled immigration, have not reacted with enthusiasm to these initiatives. For that reason, the European Union may take the lead in the WTO on specific issues, particularly rule-making initiatives in new areas, but it is unlikely to provide leadership for broad-based WTO negotiations.

Will EU trade policy bend to the demands of enlargement and resist new WTO liberalization so as not to exacerbate the growing adjustment pressures of regional integration? The factor that may tip the EU scales toward WTO liberalization is the fear of discrimination against EU products and services resulting from regional free trade pacts in the Asia Pacific and the Western Hemisphere to which they are not a party. Such concerns could drive EU officials to cut similar deals in these regions,<sup>22</sup> or they could turn the Europeans back to the MFN world of the WTO and reinforce EU interest and support for new GATT/WTO negotiations.<sup>23</sup>

In an attempt to reconcile these two options, Hatakeyama (part II, comment) has proposed new APEC-Europe talks, or APEEC (Asia Pacific European Economic Cooperation). This idea seeks to circumvent the discrimination problem by linking the two largest regional initiatives in a trade pact that could then be implemented on an MFN basis consistent

---

22. The European Union has pursued political arrangements in those regions (e.g., the Asia-Europe Meeting, Euro-Mercosur), but their economic content has generally been negligible, and thus they have not been effective in lessening the risk of discrimination.

23. Indeed, the APEC Declaration on the Uruguay Round in November 1993 provoked just such a response and prompted the European Union to reluctantly agree to conclude the GATT talks in December 1993.

with WTO rules. But if the European Union is willing to open its trade with all of the world's trading powers through regional pacts, why shouldn't it simply negotiate in the WTO—where the poorest countries would not be excluded? WTO 2000 talks ultimately are preferable to the regional initiatives with non-European countries that the European Union is now exploring.

## United States

The key question mark for WTO 2000 is the strength of the US commitment to maintain its leadership role in the WTO. Since the passage of Uruguay Round implementing legislation in December 1994, US officials have also suffered from attention diversion, as trade policy focused on bilateral disputes with Japan and China. Initiatives in APEC, the Western Hemisphere, and the WTO were constrained by the absence of US "fast track" negotiating authority. New trade policy initiatives have been essentially deferred until after the November 1996 election, as officials at the Office of the US Trade Representative refuse to consider negotiations in any area in which they do not already have negotiating authority.

Nonetheless, the current political constraints on US trade policy should be temporary, allowing the United States to resume active support for WTO initiatives in 1997 (regardless of the outcome of the election). There are three main reasons for this relatively optimistic assessment.

First, the United States has benefited from an export-oriented trade strategy that has contributed to an almost 50 percent increase in total US exports since 1990. This strategy has stressed expanding exports by liberalizing foreign trade barriers rather than restraining imports and has helped deflect protectionist pressures that could well have heated up in response to record US trade deficits. The success of this strategy has buoyed the traditional and relatively strong bipartisan support for new trade initiatives in the Congress.

To be sure, there is a vocal, active protectionist lobby in both major parties, but neither gained much support in the presidential primaries in early 1996. The main challenge to an open US trade policy over the near term will likely be concerns about wage stagnation and alleged unfair competition from low-wage developing countries. The Clinton administration has tried to channel these concerns constructively by linking them with trade pacts that promote both US exports and the adoption of basic labor standards abroad. Contrary to the incantations of Ross Perot and Pat Buchanan, increased trade actually helps mitigate those problems. According to Richardson and Rindal (1996), US export industries pay considerably higher wages (reflecting higher worker productivity) than the average US manufacturer, and they increase jobs at a faster rate than nonexporting firms.

Second, new WTO talks will require few changes in existing US trade policies and will force other countries to change their trade practices to conform more closely to US norms. This mercantilist calculus resonates well with US political leaders who object to “giving up” something for nothing, but not vice versa!

Why would other WTO members, particularly developing countries, accept this asymmetric deal? The rationale is a combination of enlightened self-interest and traditional reciprocity. The WTO agreements generate a kind of foreign *gaiatsu*—that is, international trade pacts force countries to implement policy reforms that they know are desirable but that they otherwise would have trouble pursuing because of domestic political opposition. In this way, WTO commitments reinforce domestic policy reforms designed to strengthen economic growth. Furthermore, WTO accords provide an insurance policy against two contingencies: a reversal in the relatively open access to industrial-country markets and a reversal in members’ domestic policies.

The third reason for optimism is that prospects for the renewal of US fast-track negotiating authority should improve in 1997, for two reasons. First, fast-track authority underpins US export strategy, which commands strong, broad support. Second, fast-track provisions enable US negotiators to work out the best deal possible; with such authority, US trading partners need not hold back concessions for fear that the Congress will reopen and increase US demands after the talks are completed.

To date, the absence of fast-track authority has posed only minor problems (e.g., delay in Chilean accession to NAFTA) for the conduct of US trade policy. However, the expiration of fast-track authority has created some confusion about the implications for US participation in new WTO and other trade initiatives, and it has raised concern that US policy will be stuck in neutral.

To be sure, the United States does not need fast-track authority to launch the initiatives suggested above for the Singapore ministerial. Recall that US officials negotiated for two years in the Uruguay Round before fast-track authority was renewed in 1988. The key requirement to make this work is close consultation and cooperation between the administration and the Congress so that there is bipartisan agreement that these initiatives promote US interests.

Renewal of fast-track authority in early 1997 should avoid the pitfalls that doomed recent efforts. Legislative initiatives to renew fast-track stalled in 1994 and 1995, primarily because of disputes over whether trade pacts qualifying for fast-track treatment could include commitments on labor and environmental policies (Destler 1995, chapter 9). The experience of those legislative battles will influence congressional deliberations in 1997.

The likely postelection compromise—as Mac Destler forecasts in chapter 6—is passage of fast-track authority that neither explicitly includes

nor excludes coverage of both issues. However, it is clear from the fractious disputes over fast-track that if major labor and environmental regulatory reforms are included in a legislative package presented for approval under fast-track procedures, they will attract a firestorm of opposition. Therefore, US demands for new WTO initiatives in these areas probably will be tempered over the near term by this political compromise. US efforts will thus probably focus more on transparency objectives than on new disciplines on domestic policies.

## East Asia

To achieve the “critical mass” of liberalization in WTO talks that developed countries deem necessary for them to undertake additional reforms, the active participation of the dynamic economies of East Asia is essential. In many respects, these countries are willing partners (even if they sometimes have to be pushed to the negotiating table). Because they rely heavily on export-led growth, they are dependent on a strong and effective multilateral trading system and, as demonstrated in the Uruguay Round, will act to avoid system failure.

This commitment is also reflected in East Asian participation in the APEC forum. APEC members have made the strengthening of the multilateral trading system a fundamental tenet of their regional integration efforts, and support for WTO initiatives has been a constant and central theme of APEC deliberations. For example, the Declaration on the Uruguay Round issued at the Seattle summit in November 1993 promoted the successful conclusion of the GATT talks the following month. More recently, the Bogor and Osaka summits committed APEC to a leadership role in the WTO system by agreeing to accelerate the implementation of Uruguay Round liberalization and to pursue its regional initiatives in a manner that conforms to and reinforces WTO disciplines. In November 1996, APEC can build on these past achievements at the Subic Bay summit and thereby promote a successful inaugural meeting of WTO trade ministers in Singapore three weeks later.

However, as Soogil Young astutely points out in chapter 8, the primary focus of these East Asian countries is on rapid industrialization, which is often nurtured by mercantilist policies that are antithetical to the liberalization ethic of the WTO. Their support for APEC’s “concerted unilateralism” is consistent with such an approach, since it allows each country to manage how, when, and where it will liberalize—rather than committing to a fixed schedule of liberalization negotiated in a GATT-like trade pact.

The mercantilist spirit of East Asian countries is most evident in two areas: agriculture and protection of national champions, particularly domestic auto producers and telecommunications monopolies. Protection of agriculture is as volatile a political issue in East Asia as it is in France—

witness the grudging commitment by Japan and Korea to minimal rice import liberalization in the Uruguay Round and their more recent, though ultimately unsuccessful, efforts to exempt farm trade from APEC's comprehensive liberalization commitments. However, the political base for those policies is rapidly eroding as farmers grow old and their children move to urban areas. Within a decade, political opposition to farm trade liberalization in Japan and Korea will be much more muted than it is today.

Support for national champions poses a bigger problem, since the current policies generate ever-stronger vested interests in maintaining protection. Such policies have already elicited complaints from WTO member governments. But an even harsher response can be expected from foreign investors, who will seek more investor-friendly climates in the region.

One final point bears mention. East Asia is an extremely heterogeneous region with very rich and very poor countries. Trade politics is subservient to the politics of economic development and does not have high salience in national debate. Accordingly, few countries—including Japan—commit prestige or negotiating “chips” to the task of providing leadership to the trading system. Within the region, leadership is in short supply (or demand, given their history of political and cultural conflict). If one is looking for heroes to lead the WTO charge into the 21st century, East Asia provides few candidates—but their keen perception of self-interest makes them good followers of WTO initiatives.

## Conclusions

Overall, the WTO is working well. Yet nagging doubts persist regarding the political will of member countries to use the WTO system to address the challenges facing world trade. The limited progress to date in service-sector negotiations reinforces those concerns about the potential payoff of new WTO trade talks. The WTO must produce better results if it is to maintain the support of its member countries.

As detailed above, the Uruguay Round accords have given the WTO system the tools to meet the new challenges confronting world trade. The trading system need no longer be held hostage to long, drawn-out debates over whether to launch initiatives. Instead, the WTO comes equipped with a mandate to begin talks over the next few years on a wide-ranging “built-in” agenda and to harvest results in “roundups” while negotiations continue on a revised agenda.

Member countries should take advantage of these new opportunities to adopt a WTO work program that both addresses holdover problems from past GATT rounds and looks ahead to the problems already arising from proliferating regionalism and new strains of protectionism that are evolving in the dense domain of regulatory practices. The WTO agenda should combine substantive reforms and procedural initiatives both to

expand global trade and investment and to strengthen the institutional underpinnings of the trading system.

This monograph has set out a modestly ambitious agenda for the WTO for the rest of the decade. Not everything in the "WTO 2000" program detailed above can or should be done at once. Rather, member countries should use the new WTO forum to initiate a multistage process, starting at the Singapore trade ministerial in December 1996 and continuing at subsequent meetings of trade ministers. After Singapore, ministers should plan to reconvene to celebrate the 50th anniversary of the GATT/WTO system in late 1997 or early 1998. Better yet, the heads of state of WTO countries could mark that anniversary with the first-ever global trade summit (chapter 14). This timing would accelerate the preparatory process for WTO negotiations and have the added benefit of scheduling future ministerials in off-election years in the United States.

The following summarizes the initiatives that should be undertaken in the WTO over the near to medium term. The proposals are divided into two categories: "starting at Singapore" and "moving toward WTO 2000."

### **Starting at Singapore**

The Singapore ministerial is critical to getting the process started. As the ASEAN members have recommended, the Singapore ministerial should "start the preparatory work on the built-in agenda, including agriculture" (*Inside U.S. Trade*, 2 August 1996, 19). These efforts should help ensure that all WTO members have the analysis and background information necessary to participate fully in WTO initiatives.

To be successful, however, the Singapore meeting must also produce concrete results. Actions speak louder than words. Thus, several specific initiatives should be undertaken at the Singapore meeting:

- As a new organization facing the challenges of world trade in the 21st century, the member countries should begin to develop a vision for what WTO initiatives should aim to achieve over the long term. To inform government deliberations on this crucial task, the WTO should commission an eminent persons group, similar to the Leutwiler Commission of the 1980s, to produce a blueprint for WTO review by the end of the summer 1997, so that their recommendations could be taken into account in planning for the next ministerial (perhaps at the GATT anniversary celebration).
- WTO members should rededicate themselves to full and rapid implementation of the Uruguay Round accords, *and then some!* WTO members should agree to accelerate their Uruguay Round tariff cuts, just as many of them have already agreed to do in the context of regional arrangements. In addition, all countries should commit to eliminate all

nuisance tariffs of 2 percent or less, and developing countries should commit to reduce their tariff bindings down to the level of their applied rates.

- Ministers should commit to launch new WTO negotiations on investment issues by the end of 1997 and should establish a working group to develop the terms of reference for those talks. They should also agree to extend the deadline for services negotiations until 1998 so that those sectoral talks can be linked to other WTO liberalization initiatives.
- Ministers should agree to accelerate the start of government procurement negotiations and offer interim memberships for countries committing to core obligations regarding transparency.
- Ministers should commission a working group on competition policy to develop competition-oriented criteria to guide the application of antidumping cases and to study the trade implications of national competition policies.
- Ministers should direct the WTO Secretariat to establish a joint task force with the International Labor Organization on trade and labor issues and report back to ministers at their next meeting.
- Ministers should commission a group of experts to examine the issues raised by Chinese accession to the WTO and report their findings and recommendations to the WTO General Council by June 1997.
- WTO members should agree to establish immediately both a private-sector Trade and Environment Advisory Group and a WTO office in Washington headed by a deputy director general to work closely with the IMF and the World Bank.

These initiatives should build on and complement the stock-taking exercise that WTO members will pursue in Singapore. More importantly, they should lay the foundation for new WTO negotiations that could lead to a series of roundups starting as early as 1998.

### **Moving toward WTO 2000**

If the Singapore initiatives are undertaken, WTO members should be able to agree on a long-run vision for the trading system in time for the 50th anniversary of the GATT/WTO in late 1997 or early 1998. Ideally, WTO members should seek the elimination of all tariffs and other border restrictions by a fixed date. Further, they should then engage in negotiations to begin working toward those goals. At that point, the outlines of the first WTO roundup should begin to take shape:

- Countries could undertake new trade liberalization initiatives, including 50 percent cuts in peak tariffs and accelerated implementation of

Uruguay Round textile reforms. These reforms could be linked in the negotiating package to developing-country participation in WTO reforms in services, investment, and government procurement.

- Major developed and developing countries could commit to extensive new liberalization of services trade barriers in basic telecommunications and financial services.
- WTO members could agree to new guidelines for participation in regional arrangements, specifically to ban or sharply limit use of industry- or sector-specific rules of origin in new pacts.
- Drawing on the work of the CTE and the proposed Trade and Environment Advisory Group, WTO members could examine the use of domestic subsidies in the farm and energy sectors and negotiate, if necessary, amendments to the WTO Agreement on Subsidies to promote sound environmental practices.
- Since preparatory work on a number of new issues should be well-advanced, WTO members could proceed to develop a consensus on the breadth and scope of new rule-making initiatives, some of which may be ripe for decision at the next ministerial.

The combination of these initiatives and the reviews and negotiations in other areas contained in the built-in agenda should create a large enough negotiating package by 2000 to accommodate the significant cross-sector and cross-issue trade-offs needed to induce reforms in agriculture and further reforms in services. Rounding up those issues will be the challenge of the new century and the capstone of WTO 2000.

## References

- APEC Eminent Persons Group. 1993. *A Vision for APEC: Towards an Asia Pacific Economic Community*. Singapore: APEC (October).
- APEC Eminent Persons Group. 1994. *Achieving the APEC Vision: Free and Open Trade in the Asia Pacific*. Singapore: APEC (August).
- APEC Eminent Persons Group. 1995. *Implementing the APEC Vision*. Singapore: APEC (August).
- Bhagwati, Jagdish, and Arvind Panagariya, eds. 1996. *The Economics of Preferential Trade Agreements*. Washington: American Enterprises Institute Press.
- Charnovitz, Steve. 1986. "Fair Labor Standards and International Trade." *Journal of World Trade Law* 20, no. 1 (January/February): 61-78.
- Destler, I. M. 1995. *American Trade Politics*, 3d ed. Washington: Institute for International Economics.
- Graham, Edward M. 1996. *Global Corporations and National Governments*. Washington: Institute for International Economics.
- Graham, Edward M., and J. David Richardson, eds. 1996. *Global Competition Policy*. Washington: Institute for International Economics. Forthcoming.

- Hufbauer, Gary C., and Jeffrey J. Schott. 1985. *Trading for Growth: The Next Round of Global Trade Negotiations*. POLICY ANALYSES IN INTERNATIONAL ECONOMICS 11. Washington: Institute for International Economics.
- Leutwiler, Fritz et al. 1985. *Trade Policies for a Better Future: Proposals for Action*. Geneva: GATT.
- Richardson, J. David, and Karin Rindal. 1996. *Why Exports Matter: More!* Washington: Institute for International Economics and the Manufacturing Institute.
- Ruggiero, Renato. 1996. "Implications for Trade in a Borderless World." Address to the World Trade Congress, Singapore, 24 April.
- Schott, Jeffrey J., assisted by Johanna W. Buurman. 1994. *The Uruguay Round: An Assessment*. Washington: Institute for International Economics.
- Wolf, Martin. 1996. "A Vision for World Trade." *Financial Times*, 27 February 1996, 12.