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Prior to the American elections in 2000, the president of the Cordell Hull Institute, Hugh Corbet, gave a lecture [in English] at the Institut Francaise des Relations Internationales on **XX** September on restoring momentum in the WTO after the US elections.

The lecture was subsequently published as **XX** in **XX**



Attached is a reproduction of the paper presented by **Hugh Corbet** (above) at the Paris meeting.

About the Author

Hugh Corbet, president of the Cordell Hull Institute in Washington, DC, was previously Director of the Trade Policy Program at the Sigur Center for Asian Studies, George Washington University (1992-97), and earlier was a guest scholar at the Woodrow Wilson International Center for Scholars and the Brookings Institution (1990-92), all also in Washington.

PARIS LECTURE...

Restoring Momentum in the WTO After U.S. Elections

Hugh Corbet

AS W.J. CLINTON prepares to leave the White House, the multilateral trading system, now overseen by the World Trade Organization, is in a dangerous state of drift. Efforts to develop regional trade arrangements in the Asia-Pacific region and the Western Hemisphere are also drifting. Loss of momentum at both levels has been largely because since 1994 the President of the United States has not had trade-negotiating authority. Five attempts to renew it came to nothing.

The President of the United States is not obliged by the country's Constitution or any statute to obtain negotiating authority from Congress before embarking on trade negotiations with other countries. But other countries loathe entering into negotiations with the United States without an assurance that Congress will respect the resulting agreements and not try to renegotiate them.

Thus in the early post-World War II years, before embarking on negotiations in successive "rounds" under the General Agreement on Tariffs and Trade, the President sought from Congress an extension of Cordell Hull's Reciprocal Trade Agreements Act of 1934. Those extensions, for limited periods at a time, provided for the negotiation of modest tariff reduction. In JFK's Trade Expansion Act of 1962 more ambitious tariff reductions were authorized.

In the early 1970s, it was anticipated that worries about the Congress not respecting agreements could increase if GATT negotiations moved on to tackle the competition-distorting effects of non-tariff measures, which could well require amendments to domestic laws. Accordingly, the Trade Act of 1974 introduced the idea of "fast track" negotiating authority¹ under which the Congress pledged not to tinker with agreements, but to vote them "up or down", when in due course the Administration presented implementing legislation on them. Before 1994 the authority was renewed several times without difficulty.

For nearly twenty years, Mr Corbet was the Director of the Trade Policy Research Centre in London (1968-89), where he also founded and edited *The World Economy* (1977-89).

In 1982-88, Mr Corbet convened *inter alia*, in different parts of the world, eight "informal" roundtable meetings of trade ministers, senior officials, business leaders and independent experts from twelve to eighteen countries at a time. The meetings were part of the international effort to launch what turned out to be the Uruguay Round of multilateral trade negotiations of 1986-94.

For half a century, whatever the outcome of federal elections, there was bipartisan support in the United States for trade policy, the GATT system and the steady movement towards an open world economy. That is no longer the case.

Many have wondered what the outcome of the Elections 2000 would mean for U.S. trade-negotiating authority. Just before the elections Lee Kuan Yew was asked by the *Financial Times* about Japan's policy shift in favor of regional trade arrangements. Singapore's senior minister replied that a new round of multilateral trade negotiations, under the WTO, would be the better way to go, but he was skeptical about it happening. "If Al Gore is the President," he said, "and he's obligated to the [labor] unions, I don't see fast-track [negotiating authority] being sought anytime soon."²

Without trade-negotiating authority from Congress, the Administration of the United States has little scope for initiative, beyond "housekeeping" matters. Thus the Clinton Administration was limited to pursuing trade-liberalizing agreements on goods and services in which the American market was already open or agreements that did not involve a great deal of trade. For these negotiations the Administration got by without fast-track negotiating authority.

If the momentum of trade liberalization is to be resumed, however, it is critical for the new U.S. Administration to secure a trade-negotiating authority that enables it to seek far-reaching agreements with other countries. Since that authority was last renewed in 1988, and extended in 1991, there have been significant changes as a result of the Uruguay Round agreements and the coming into force of the WTO system.

First of all, the WTO system is much nearer to what the multilateral trading system should have been all along, a framework of principles, rules and procedures addressing the interests of all its member countries. Second, although the system still depends on U.S. initiative, other countries are not as ready as before, with the end of the Cold War, to follow the United States. Third, and by contrast to earlier times, there are deep concerns about the direction of American trade policies.

Fourth, in the Uruguay Round negotiations the developing countries made multilateral market-opening commitments for the first time and, because the negotiations were conducted as "a single undertaking"; they are now parties to all the agreements reached. Consequently, the developing countries recognize their stake in the new WTO system, as they did not in the old GATT system, and have to be persuaded that proposals for further negotiations and reform are in their long-term economic interests. This is rather hard to overlook, given that they account for four-fifths of the WTO membership, but some still manage to do so.

Fifth, the integration of low-wage economies into the WTO system bothers those in developed countries who are fearful of change, especially in organized labor circles. Finally, many in environmental, food-safety and consumer groups fear a lowering of the standards for which they have been fighting.

All these developments culminated in December 1999 in the demonstrations in Seattle that were seen on television screens, computer monitors and front pages around the world.

Outline of the Paper

Following "the Seattle fiasco", and the worsening drift in the WTO system, there has been alarm as more countries resort to regional trade arrangements. The situation is reminiscent of the early 1980s when the major trading powers were at a loss over how to restore the momentum in the GATT system that was lost in the 1970s. As part of its effort to launch a new GATT round, the United States indicated a readiness to pursue trade liberalization by other means, floating the idea of bilateral free trade areas with the countries of Southeast Asia, Australia, New Zealand and South Korea.

The next part of this paper assesses the failure to launch a first WTO round. That failure is put down to the inability of the Quadrilateral Group to figure out a negotiating agenda acceptable to all WTO member economies.

The last part suggests what needs to be done to restore momentum in the WTO system -- especially by the United States, where a new Administration could make a fresh start.

ASSESSMENT OF THE SEATTLE FIASCO

What happened in Seattle in December 1999 was significant not because diverse NGOs, labor unions and sundry others brought cogent arguments to bear against the WTO system and the integration of the world economy -- nowadays called "globalization". It was significant because the NGOs attracted the attention of the media and played on popular fears and prejudices.³ The protesters managed to turn a subject previously the domain of experts into a matter of high politics.

The public at large has been led to believe that somehow 50,000 protesters in Seattle were responsible for the failure of the WTO's highest decision-making body to launch the first WTO round. The failure was some weeks before in Geneva where, after more than a year of preparatory meetings, the WTO delegations could not get close to agreement on an agenda for negotiations that had already been approved in principle -- at the previous WTO Ministerial Conference in Geneva in May 1998. All that the protesters in Seattle did was convert a failure into a fiasco.

In the month and weeks before Seattle it became clear that the major trading powers were not ready to negotiate.⁴ This reflected the confused state of public opinion in the leading industrial countries, with much made of NGO activities and organized labor's opposition. But this could not have made a difference if governments had promoted a greater public understanding of what has been happening in the world economy in the course of the last thirty or forty years.

Instead of countering the slogans, simplifications and wild assertions of NGOs over the past decade, political leaders have responded with pandering and appeasement, while the business community has been relatively inactive or intimidated into silence. As a result, the public debate has been defined by anti-globalization groups, with the general public now alert, misinformed, suspicious, and apparently on the anti-trade side of the political balance.

The anti-WTO protests in Seattle drew attention to the whole sorry mess, a depressing sense of drift in the WTO system, pointing to the lack of direction in the foreign economic policies of the United States and other Quad countries. The demonstrations were not just against the WTO system but also against globalization, big business and capitalism in general, as were earlier demonstrations in Paris, Geneva and London – and subsequent ones in London, Washington, Melbourne, Prague and Seoul, to name but a few.

PRESIDENT CLINTON'S MISTAKES

What most shocked informed opinion about the demonstrations in Seattle and the failure to launch a WTO round was the absence of leadership by the President of the United States. Since World War II the United States had taken the initiative in promoting the integration of the world economy through trade liberalization and reform. So what happened in the United States after the Uruguay Round success?

The question is difficult to answer without getting into party politics. In spite of the Seattle debacle being a huge embarrassment to the United States, President Clinton has not admitted any mistakes, but there were numerous mistakes and they compounded one another. They need to be identified in order to put the WTO's predicament in proper perspective.⁵

The USTR Office may have figured that hosting the third WTO Ministerial Conference would help to draw American public attention to the benefits of globalization. If so, the idea was undermined by "political operatives in the White House" who, from the start, saw the event as an opportunity for a media spectacle, serving an altogether different political purpose. It was as if the trade ministers meeting in Seattle would not have anything serious to decide -- affecting millions of people's lives the world over.

“Dissing” the WTO’s Highest Council

As delegations in Geneva prepared for Seattle, seeking agreement on a draft agenda for the proposed WTO round, they and media observers began to suspect that the U.S. position was being determined by little more than domestic politics. The agenda had to be limited so as not to jeopardize the election to the White House of Al Gore. Showing such disrespect for the WTO's highest decision-making body was a “mistake”. By my reckoning it was Mistake No. 9.

In what way was it a mistake? Towards the end of the Uruguay Round negotiations it was realized that the agreements being reached would only be a start in remaking the world trading system. Some issues were being papered over, others were being put off for another day and, inevitably, new ones were surfacing. It was crucial for steps to be taken, there and then, to maintain the momentum of negotiations in the multilateral trading system. So governments prepared the ground for further negotiations, first by ensuring regular political involvement and, second, by making a range of commitments.

On the first point, activities in the old GATT system were supervised by annual meetings of senior bureaucrats, without much political direction and control. Thus in the Marrakesh Agreement of 1994, which established the WTO to administer the amended GATT and the other Uruguay Round agreements, provision was made for a Ministerial Conference at least once every two years. Between sessions of the Ministerial Conference, it was agreed that WTO activities would be conducted by a General Council and three subsidiary bodies, dealing with the agreements on trade in goods, services and ideas.

On the second point, commitments were made in the WTO agreements to *resume* negotiations in 1999-2000 on agriculture, services and intellectual property rights and, at various points from 1995 onwards, to *review* other agreements, decisions and understandings. These items constitute the so-called built-in agenda.

The Clinton Administration proceeded, however, as if Washington had no institutional memory of the difficulties in launching, conducting and concluding the Uruguay Round negotiations, never mind earlier GATT rounds. What were President Clinton’s other mistakes? Here I will only touch on them only briefly.

Other Mistakes of Leadership

Mistake No. 1 was for President Clinton to take the export-promotion objectives of a state governor into the Presidency of the United States as if they were enough, for (like it or not) the United States has much wider responsibilities, including the WTO system.

Mistake No. 2, after getting the Uruguay Round implement legislation through Congress, was for President Clinton to steer clear of major trade policy issues and leave public discussion of them to interested NGOs, labor unions and economic nationalists. It was an abdication of leadership both at home and abroad.

Mistake No. 3 was the failure to grasp, after a generation of struggles, the significance of the WTO system to smaller countries that look to the multilateral framework of principles, rules and procedures for the protection of their interests.

Mistake No. 4 was President Clinton's insistence, in seeking from Congress the renewal of fast-track negotiating authority in 1994, on a remit to press for labor and environmental standards in trade agreements. The request was rejected even though the Congress was still under Democratic control.

Mistake No. 5 was to let the bipartisan approach in Congress to U.S. trade policy break down over fast-track negotiating authority. In 1995, after the Republicans had gained control of both houses, the President still insisted on a remit to press for labor and environmental standards in trade agreements.

To digress a moment, in December 1996, at the first WTO Ministerial Conference, held in Singapore, approval was given for work to continue in the Committee on Trade and the Environment, established during the Uruguay Round negotiations. The ministers considered the establishment of a working group on labor standards, but, against the arguments of the United States and France, they decided that the International Labor Organization was still "the competent body to set and deal with [labor] standards". Ministers supported the ILO's "core labor standards", but rejected the use of them for protectionist purposes, agreeing that low-wage comparative advantage "should in no way be put in question".⁶

At that point, President Clinton could have reported to the American people that he had tried to get labor standards into the WTO system, but it was not possible to get agreement and there were other important issues to be tackled. He could have reported though that environmental issues were being addressed in the WTO system and taken up in its dispute-settlement process.

Mistake No. 6 was when a third attempt was being made in Congress to obtain fast-track negotiating authority and President Clinton decided against using the White House as a "bully pulpit" -- and having Cabinet members go forth -- to make the case in the country for trade liberalization, the WTO system and the need for trade-negotiating authority.

Mistake No. 7 was the President's offer to host the third WTO Ministerial Conference in Seattle when, having cleared the way with Beijing, Hong Kong was ready to do so.

Mistake No. 8 was believing its own propaganda when senior officials began saying at the end of 1997 that the Administration did not need negotiating authority to *begin* a WTO round. They pointed out that it was not obtained before either the Tokyo Round negotiations or the Uruguay Round negotiations. But on both those occasions, the circumstances were different, for the United States was out in front pressing for a new GATT round. Back then there was confidence in White House assurances that Congress would provide negotiating authority before long. In the late 1990s, there were grave misgivings about the U.S. commitment, in a Washington racked by scandals and bad faith, to the WTO system and further trade liberalization

Reviewing these mistakes, and others that could be mentioned (e.g., the Lewinsky matter), almost eliminates the "shock" in what happened before, during and after Seattle. Anyone who looked could not have been surprised. For more than a year the United States, the European Union and Japan, along with the Cairns Group of agricultural-exporting countries, were at loggerheads in Geneva over the agenda for a WTO round. As the struggle reached crisis point, the *Financial Times* reported that "the unwieldy negotiating process in the WTO, the intransigence of some WTO members and lack of leadership by the big trading powers, especially the United States, are blamed for the stalemate".⁷

The United States was not the only foot dragger. It appeared to be the least ready to negotiate, but on agriculture, the central issue, the European Union and Japan were as unready as ever. In neither of them has any political leader lifted a finger to prepare public opinion for the fundamental changes in farm-support policies that are necessary if agriculture is to be made a part of the multilateral trade-liberalizing process.

In the end, the outright failure in Geneva to agree on a draft agenda for ministers to finalize in Seattle deprived the NGOs and organized labor of a claim to have stopped a WTO round being launched. But that has not prevented them from making the claim. Thus a myth was born in which the NGOs and the Quads have a vested intellectual interest. For the NGOs the claim is evidence of their effectiveness. For the Quads the Seattle fiasco is a scapegoat for their failure to provide leadership.

After the U.S. Elections?

During the Elections 2000 in the United States there was not much mention or discussion of trade issues. On the WTO front, there are big tasks for the new U.S. Administration if momentum is to be restored in the WTO system. What are they?

Task No. 1 is to build a new consensus, domestically and at inter-governmental level, on the further liberalization of international trade and investment. For the new U.S. Trade Representative

there is a major selling job to be done not only in the country and on Capital Hill but also in working with the European Union, the other Quads, the developing countries and such coalitions as the Cairns Group.

Task No. 2 is the renewal of fast-track negotiating authority. What's required is simply an extension of the original authority set out in the Trade Act of 1974. The new Administration cannot afford to get bogged down in further arguments over labor and environmental standards. Nearly all other countries agree those standards should be pursued in another international forum -- not in the WTO system.

Task No. 3 is to secure agreement on that other forum, an international conference, in which the heads of the relevant inter-governmental organizations can discuss labor and environmental standards in the context of development in the world economy. The conference could also discuss the trade provisions in international environmental agreements that are in conflict with WTO rights.

Task No. 4 is to put to rest post-Seattle calls for WTO "reforms" that divert attention from more fundamental issues. While the WTO decision-making process may be "unwieldy", and no doubt can be improved, is it really at the heart of the problem in the WTO system? If one of the Quads is not prepared to discuss the revision of anti-dumping laws, another is determined to resist the fundamental reform of farm-support policies and still another is against accelerating the elimination of quotas on textiles and clothing, there is going to be a problem right there, however much the decision-making process is improved.

Perhaps the process is unwieldy precisely because of the resistance to change in the major trading powers themselves. Procedural issues usually reflect substantive problems. And international differences are frequently the result of domestic.

Task No. 5 is to address the "implementation problem". In preparing for Seattle, many developing countries were reticent about a WTO round, implying additional commitments, when their existing ones had not been fully implemented. Many of them do not have the necessary resources, either human or financial, in spite of technical assistance. Much "capacity building" requires money -- even if the costs are offset, in due course, by the benefits of structural adjustment. At the spring meetings of the World Bank, it was decided to make trade a part of the development programs of client countries, preparing the way for tackling the WTO implementation problem. But this positive course has to be pushed along more vigorously.

Task No. 6 is to stop the way in which the European Union and now Japan, in negotiating bilateral free trade areas with others



The **mockingbird** is the state bird of Tennessee. Cordell Hull represented a district of Tennessee in the Congress of the United States, and was elected a senator from there, before becoming U.S. Secretary of State (1933-44).

Trade Policy Analyses

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(e.g., with Mexico and with Korea, respectively), are cocking a snook at the conditions in GATT Article XXIV for departures from unconditional MFN treatment to form free trade areas and customs unions. They have been excluding agriculture when Article XXIV requires "substantially all trade" to be covered in the elimination of barriers to trade among the participating countries.

In the Uruguay Round negotiations an agreement was finally reached, after nearly fifty years, on a framework for bringing agriculture into the multilateral trade-liberalizing process.⁸ But there was not enough time left to negotiate much actual liberalization. The United States and the Cairns Group had to settle for "next time".

As "next time" has come around, there has been this year a concatenation of three developments, which may be an indication of things to come. First, the WTO negotiations began, in accordance with the Uruguay Round commitment, on the liberalization of agricultural trade. Second, Japan decided to move away from its multilateral approach to trade policy, citing Seattle as a reason, and began exploring bilateral free trade areas with Korea, Singapore and others in the Asia-Pacific region. There is talk in Tokyo of excluding agricultural, fishery or forestry products and, given Japan's record, that view may well prevail. Third, the farm lobby in Washington is moving to press the new U.S. Administration to oppose in the WTO system the approval of free trade areas that violate the "substantially all the trade" provision in GATT Article XXIX.

There is in the offing a major conflict over bilateral free trade areas being used as a device for eschewing the opening of agricultural markets as well as protecting manufacturing industries by manipulating rules of origin in such agreements.

¹. For an insider's account of how fast-track negotiating authority came about, see Robert C. Cassidy, Jr, "Negotiating on Negotiations: the Geneva Multilateral Trade Negotiations", in Thomas Franck (ed.), *The Tethered Presidency* (New York: New York University Press, 1981), p. 264 *et seq.* When the provision was being devised, Mr Cassidy was assistant counsel in the Office of Legislative Affairs, and later international trade counsel for the Committee on Finance, in the United States Senate.

². Peter Montagnon, "Lee Kuan Yew sees Rise of Japan's Influence", *Financial Times*, New York, 10 October 2000, p. 8.

³. The situation was pithily portrayed in Victoria Curzon Price, "Seattle Virus: a Mutant Form of Protectionism", *The JAMA Forum*, Tokyo, February 2000.

⁴. See, for example, the editorial "WTO Impasse", *Financial Times*, London and New York, 9 November 1999; and also Reginald Dale, "In Trade, U.S. Wants it Both Ways", *International Herald Tribune*, Paris, 9 November 1999.

⁵. This discussion draws on my article, "Postmortem on Seattle: Mistakes were Made", *The JAMA Forum*, Tokyo, February 2000. The article was based on a presentation to a briefing seminar on the

Requirements for a Successful WTO Round in Seattle on 2 December 1999, convened by the Centre for International Economics, Canberra, and the Cordell Hull Institute, Washington, DC.

⁶. Singapore Ministerial Declaration, WTO Secretariat, Geneva, 13 December 1996.

⁷. Frances Williams and Guy de Jonquieres, "EU's Tactics Anger US and Cairns Group", *Financial Times*, New York, 12 November 1999.

⁸. Clayton Yeutter, "Critical Role of the Cairns Group in Liberalising Agricultural Trade", Andrew Stoeckel and Hugh Corbet (eds), *Reason versus Emotion: Requirements for a Successful WTO Round* (Canberra: Centre for International Economics, 1999).