

INTRODUCTION

THE FUTURE OF THE WTO

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A Crucial Moment in U.S. Trade Policy

Once an obscure international body tucked away in Geneva, Switzerland, the World Trade Organization (WTO) has become almost a household word in the United States today. Its name recognition rose dramatically in fall 1999 when tens of thousands of protestors took over the streets of Seattle at the beginning of the WTO's November 30-December 3 ministerial meeting. The demonstrators seemed to blame the WTO for undermining all that is good in the world—from democracy and living standards to air quality and sea turtles. The protests were followed later in the week by the collapse of talks among the WTO's more than 100 members, talks that were supposed to launch a new round of multilateral trade negotiations.

This double failure—to persuade hearts and minds outside the negotiating rooms and to achieve consensus within—was an undeniable setback for the WTO and free trade. Events in Seattle invigorated opponents of the WTO, weakened its base of support in Congress, and revived questions about the desirability of trade liberalization itself as a goal of U.S. policy. More so than anytime since its founding, doubts are being raised about the future of the WTO.

Those doubts need to be met head-on. Both the WTO and, before it, the General Agreement on Tariffs and Trade have played an important role in expanding international trade during the post-World War II era, which in turn has helped to spread prosperity to a widening circle of humanity. When representatives of 23 mostly industrialized nations met in 1947 to sign the original General Agreement on Tariffs and Trade (GATT) treaty, the world economy was still on its knees

after the trade wars of the 1930s and the world war that followed. Since then, membership in the GATT/WTO has grown to 136, with less developed countries now representing four-fifths of its membership and with another 30 countries, including China and Russia, seeking to join.

Through eight rounds of negotiations over five decades, the GATT and now the WTO have helped to dramatically lower global tariffs on manufactured goods, as well as to lock in those lower barriers with “bindings” that set upward limits on tariff rates. Due in no small part to those agreements, the volume of world trade has exploded 16-fold since 1950, a rate of growth three times faster than global output (OECD 1998: 31). For the United States, WTO membership has worked to open markets abroad for our exports while reducing our own trade barriers to the benefit of consumers and import-using producers.¹

The current controversy surrounding the WTO comes at a crucial time in U.S. trade policy. This year Congress will vote on whether to grant permanent normal trade relations to the People’s Republic of China (PRC), which, in turn, will facilitate the PRC’s entry into the WTO. Congress will then vote on a resolution to withdraw the United States from the WTO. And during the fall 2000 national elections for president and Congress, organized labor promises to make the trade issue a litmus test for its support.

At this juncture of the trade debate, it is more important than ever to reexamine why trade liberalization is good for rich and poor nations alike, as well as what role, if any, the World Trade Organization should play in promoting it. This special issue of the *Cato Journal* examines the future of the WTO and its likely impact on the prospects for trade liberalization at home and abroad. Each of the articles was originally presented at the Cato Institute’s Center for Trade Policy Studies conference, “Seattle and Beyond: The Future of the WTO,” held in Washington on November 17, 1999.

An Overview of Articles

The first three articles address the fundamental question of how a multilateral trade organization can advance the cause of free trade. *Douglas Irwin*, professor of economics at Dartmouth College, affirms the economic case for unilateral free trade, while drawing on history—both America’s long record of unilateral protectionism and the disas-

¹For a detailed discussion of the beneficial impact of WTO membership on the U.S. economy, see Griswold (2000).

trous interwar years of beggar-thy-neighbor trade wars—to make a political economy case for reciprocal trade negotiations. He warns that the future of the WTO is clouded by the efforts of its friends and foes alike to expand its agenda into areas such as competition policy and labor and environmental regulation that go beyond the WTO's historical mission of reducing trade barriers.

Brink Lindsey, director of the Cato Institute's Center for Trade Policy Studies, challenges the conventional trade wisdom that negotiations are the only or the most important path to trade liberalization. The impetus for trade reforms in New Zealand, Australia, Mexico, China, India, and dozens of less developed countries in the past two decades came not from "top-down" pressure through international institutions but from the "bottom up" through changing perceptions of national economic interest. "Freedom of international exchange thus flows up from below as a necessary consequence of predominantly unilateral decisions at the national level," Lindsey concludes. Nonetheless, multilateral trade negotiations can help to solidify domestic political support for liberalization and to lock in gains through agreements.

To best advance the cause of free trade, the WTO should stick to what it does best: facilitating trade liberalization and arbitrating disputes among its members. *William H. Lash III*, professor at the George Mason University School of Law, warns that the WTO could be hijacked by political interests that do not share its basic agenda. "Denying access to the U.S. market because of our environmental or labor values opens the floodgates to a host of morality-driven trade restrictions, jeopardizing the multilateral trading framework," Lash writes.

The shape of a new round of trade negotiations is the focus of the second group of papers. *Jeffrey Schott*, a senior fellow at the Institute for International Economics, dissects the failed WTO ministerial meeting in Seattle. He points out that one of the major obstacles was the differing perceptions among the advanced and less developed economies about what a new round should achieve. He urges a broader agenda to achieve a "critical mass" of issues, one that encompasses areas such as antidumping laws and other protectionist barriers that are harmful to less developed countries but are politically important to the U.S. government.

The two areas offering the greatest potential for gains are agriculture and services, both of which will be the subject of negotiations this year as part of the "built-in agenda" carried over from the 1994 Uruguay Round Agreements. *Kym Anderson*, professor at the School of Economics at the University of Adelaide, and *Paul Morris*, assistant secretary at the Department of Agriculture, Fisheries, and Forestry

in Australia, document the huge potential gains in world welfare from agricultural trade liberalization. Using a global economy-wide model, they estimate that almost one-third of potential global gains from trade liberalization would come from agriculture alone. They describe the most promising areas for and the chief obstacles against agricultural trade liberalization.

Equally significant trade gains could be realized in the service sector, where the United States is globally competitive in a broad range of industries. *J. Robert Vastine*, president of the Coalition of Service Industries, describes the sectors with the greatest potential for liberalization as he argues for an aggressive agenda for U.S. negotiators. “The United States should enter new negotiations with a bold agenda, calling for sweeping commitments to liberalization across as many sectors as possible. New sectors requiring attention in a new round should include energy services, health services, air cargo services, as well as financial services, telecommunications, and others,” Vastine writes.

The third group of articles analyzes the special challenges facing less developed countries in multilateral trade negotiations. *Razeen Sally*, senior lecturer in International Political Economy at the London School of Economics and Political Science, describes the rising influence of developing and transition countries within the WTO, as well as the opportunities this influence presents for faster trade liberalization and growth among less developed countries. He concludes that those countries should seek a “single undertaking” during the next round in which all agreements are accepted in their entirety and applied to all WTO members. Less developed countries should also insist that textile and apparel quotas be phased out as agreed, that antidumping laws be reformed and industrial tariffs be lowered, and that Western-style environmental and labor standards be rejected as inappropriate for poorer countries.

J. Michael Finger, lead economist for trade policy at the World Bank, documents how the WTO—by going beyond the narrow trade liberalization agenda of the old General Agreement on Tariffs and Trade—has placed a special burden on its less developed members. Specifically, he explains how the WTO rules regarding intellectual property rights, customs reform, and sanitary and phytosanitary regulations impose real costs on less developed countries but may not yield enough offsetting benefits to justify the expenditure of scarce resources. When the issue was trade liberalization under the GATT, “an economist could in good faith urge that a country—industrial or developing—overcome domestic politics and meet its obligations,” Finger writes. “For the WTO, one cannot.”

The final group of articles tackles the perennial political problem of building domestic support for free trade. *Russell Roberts*, visiting professor at the Center for the Study of American Business at Washington University, urges the advocates of trade liberalization to do the following: avoid lies, such as the claim that “trade creates jobs”; speak plainly; illuminate the unseen; and bring trade to life. “Trade determines the kinds of jobs we have in this country, not the total number,” Roberts concludes. “This is not exactly a romantic slogan to go to the barricades for. But it is true, and when fleshed out with a little bit of analysis of the unseen, it can begin to make a case for free trade that may speak to the open-minded skeptic.”

Ron Cass, dean of the Boston University School of Law, explains why promoting free trade has always been an uphill battle. Opponents of trade enjoy an inherent advantage because its negative consequences—some closed factories and displaced workers—are usually more visible and accessible than the larger positive consequences which tend to be more diffused and less directly connected to trade. As a consequence, opponents of trade are also more politically intense. To offset this bias, Cass argues for a more activist agenda for domestic companies that export or rely on imports as a major component of production, along with a concerted effort to educate the public on the benefits of trade.

Finally, *William A. Niskanen*, chairman of the Cato Institute and former acting chairman of President Reagan’s Council on Economic Advisers, argues that the best hope for future trade liberalization through the WTO is to build on the organization’s proven record of success. “The World Trade Organization may be the single most effective international agency,” Niskanen writes. In contrast to the World Bank and the International Monetary Fund, the WTO “has been focused on modest and broadly shared trade concerns—modest because the WTO, almost alone among international bureaucracies, has self-consciously resisted both internal and external pressures to expand its mission.”

Together, the articles in this issue make a compelling case for the important, if imperfect and limited, role of the WTO in expanding the frontiers of economic liberty. Through ongoing unilateral actions and future multilateral negotiations, barriers to trade can be lowered still further, delivering a higher standard of living to workers in advanced and less developed countries alike.

References

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