

BUILDING ON THE WTO'S SUCCESS

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The World Trade Organization may be the single most effective international agency. With the pending inclusion of China, governments that represent 85 percent of the world's population and about 95 percent of world trade have chosen to bind themselves to the WTO's rules and dispute settlement procedures. The WTO has been so successful that numerous groups have petitioned to use the WTO to enforce a range of nontrade rules affecting labor, the environment, and competition policy. Moreover, I think the WTO is a bargain. The budget of the WTO is around \$80 million a year, barely more than the rounding error in U.S. federal budgets.

The reasons for the relative success of the WTO are that it 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. The contrast with the International Monetary Fund and World Bank, for example, could not be stronger.

The Threat of Overloading the WTO

Despite its effectiveness, the WTO is a potentially fragile institution. The major threat is the pressure to overload the WTO with the responsibility to enforce a wider range of rules. Attempts by the WTO to enforce such broader rules would almost surely cause some governments to pull out of the organization. Most governments, fortunately, are now more willing to allow private firms to compete across national borders. However, many of these same governments are pressuring the WTO to become a cartel of governments to reduce

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the competition among governments on such matters as labor, environment, and antitrust standards.

International trade provides one benefit that is not provided by domestic trade. International trade, by its nature, creates competition among national rule-setting bodies. Trade across states within the United States creates competition among state rule-setting bodies. Only competition among nations creates competition among national rule-setting bodies. My own view is that reducing competition among governments is too high a price to pay for further increasing international competition among private firms. However valuable the latter, reducing competition among governments, that is, blocking competition among governments by international agreement on these rules, is a much greater threat to our liberty and our economy than the possible reduction of competition among private firms.

The Next Trade Round

Let me develop the implications of these lessons for the next trade round. First, the next trade round, like the WTO, should be focused and modest. Making progress on issues about which there is broad concern is more important than arguing endlessly about issues such as restricting antidumping, which the United States opposes, or about a broader role of the WTO on issues such as labor, the environment, and competition policy, which the governments of the developing countries oppose. The outstanding issues that the next round should address also need to be focused and modest. They should concentrate primarily on the mandated agenda of issues affecting agriculture and services that were not resolved during the prior round.

One new valuable issue to address, or just to introduce, would be to change the standard response to a government's failure to enforce the WTO decision in a dispute settlement—from sanctions by the aggrieved government to compensation by the offending government. The primary response now to targeted protectionism by one government judged to be violating WTO rules is targeted responsive protectionism by the aggrieved government. This response harms both nations' consumers and invites the response of special interest pressure in the aggrieved nation to shape the form of the sanction.

A far superior response is to shift the burden to the offending government to offer other comparable trade barrier reductions. Choosing to maintain rule-breaking barriers in a specific area would help some consumers in the offending countries because they would benefit from reduced trade barriers in other areas. It would also affect some exporters in other countries because the market for some

products in the offending countries would be open. In addition, it would reduce the use of retaliatory sanctions to serve protectionist pressures within the United States. The aggrieved government should be allowed to respond with sanctions only if the offending government fails to offer the compensation that would be comparable to the effect of its actions in not implementing the WTO ruling.

Old issues that should not be addressed in the next round are the imperfect agreement on intellectual property, the aborted agreement on investment, and the various legitimate concerns about the abuse of national antidumping rules, especially by the United States. These are important trade-related issues that should be addressed at some time. I suggest that they would unduly complicate the next round because they are not yet ripe for a broad agreement. New issues that should be avoided at all costs are the proposals to broaden the role of the WTO to enforce international rules on labor, environment, and competition policies, for all the reasons discussed earlier.

Finally, a commitment to a focused and modest trade round should influence one other decision: a short deadline, maybe three years, should be sufficient to address the mandated agenda and would help avoid those issues, right or wrong, for which there is no near-term prospect for a broad agreement.