

BY RICHARD MEDLEY AND MATTHEW SAAL

Even the most determined optimists are having a hard time finding the silver lining in last December's failed World Trade Organization meeting in Seattle. But viewing the outcome as the sad end to a 50-year process of trade liberalization would be a mistake.

For in their analyses of the so-called debacle, policy pundits have missed the real story: Seattle was a failure of trade politics, but since trade is ultimately about economics, it will take a lot more than a botched summit to slow its remarkable expansion. The bottom line is that the economics of integration are too strong to be stopped by the lack of political will.

Certainly the disappointment that lingers stands in stark contrast to the jubilation that greeted the news of the US-China trade liberalization deal just a few weeks earlier. In fact, we may eventually look back at China's entry into the WTO as the organization's swan song – though, by then, it may not matter. The WTO is an old-style international institution whose energy depended in part on cold war ideological conflict, whose value is subject to diminishing marginal returns and whose jurisdiction will be increasingly circumvented by the new political and economic world order.

In a perverse way, one could even take heart in the demonstration in Seattle that

non-governmental organizations and small countries have finally found a way to make their voices heard in the previously exclusionary halls of international trade diplomacy. With the WTO hobbled, future progress will occur not at the global level, but at the regional and bilateral levels, because economic incentives will ultimately overwhelm political intransigence.

CLOUDS WERE NOT JUST TEAR GAS

Realists never expected much from Seattle. Indeed, at a recent conference of international trade lawyers, the question on everyone's lips was, "Whose stupid idea was it to hold the talks in the US in an election year?"

While the outcome was worse than most expected in terms of atmospherics, it was not far from the pessimistic predictions that had preceded the event. It's worth going over some of the sticking points.

Start with the most basic. The organizers of international meetings usually agree beforehand on agendas if the meetings are intended as public spectacles. In the case of Seattle, however, even this modest goal proved elusive.

Japan and the European Union wanted a broad agenda for the next round of trade

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negotiations, one addressing not only rules and discipline and trade liberalization, but also newer issues such as e-trade, bioengineering and environmental protection. The US favored a narrower approach, stressing continued progress in the agricultural and financial sectors and limiting WTO scrutiny of US anti-dumping practices. US officials were particularly furious over the complaint that Japan has filed about US anti-dumping action against steel imports.

For their part, many countries in the

push for further textile openings will run up against equivalent resistance from the rich industrial countries.

Taking a step back from specific sectoral issues, the biggest official concerns right now are about the process itself: how long the next round should last; how much can realistically be accomplished in that time; how much to focus on broad trade rules as opposed to sectoral liberalization; how far to proceed while implementation of the Uruguay Round accords remains incomplete.



Debating the issues in Seattle.

developing world are reluctant to reduce tariffs further and are particularly worried about agriculture and financial services. WTO efforts in the forestry and fishery sectors, with their attendant environmental overtones, are prime points of contention for less developed countries, while these countries' efforts to

Many observers felt that the plug should have been pulled on the Seattle meetings when the date approached and there was still no agreement on an agenda – really a “meta-agenda,” since the meetings were not trade talks, but talks about what to talk about. Such a move would have cost the city some hotel

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bookings, but it probably would have turned out to be cheaper than containing the riots.

If the delegates had come with a concrete set of objectives, then the non-governmental organizations, concerned citizens, thoughtful doubters and loony hangers-on who converged in Seattle might have proved less destructive. For the most part, the protestors pushed an agenda of populist protectionism

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under the guise of environmental protection, labor standards and human rights. Business interests were also represented, but they weren’t sufficiently organized to grab headlines from the Granola Gang and their union allies.

It should have been obvious that the Clinton administration would not risk upsetting labor interests, whose endorsement the Gore campaign had fought so hard to win. Labor lobbyists, of course, had been proclaiming their bitter opposition to any trade agreement that didn’t include “core labor standards.” Needless to say, they weren’t on the agenda of developing countries.

But above and beyond the exigencies of pre-election Presidential politics, there is also a growing impression that the US is turning inward. “The US is shirking responsibility as a world leader and is failing to expend energy on ‘international public goods,’” one top Japanese trade official complained before leaving for Seattle.

Going into the talks, delegates also knew that without a meaningful “fast-track” process requiring swift up-or-down approval, the US would be incapable of striking a bargain that could get through Congress. Thus, the short-term local political dynamics as well as the longer-term isolationist trend fatally undermined US leadership.

Not that the blame should rest solely on the United States, though. The question of labor rights was not the only deal-breaking issue. Talks also foundered on market access, tariffs, anti-dumping rules and agricultural protection. The US may have been caught in the crossfire of domestic politics, but flexibility was not exactly

the watchword in other camps, either. For example, to the great frustration of virtually everyone else in Seattle, European Union representatives refused to enter a trade round that would even broach the prospect of eliminating agricultural subsidies.

STORMY WEATHER IN GENEVA, TOO

It is important to remember that the WTO (formed in 1995 as the successor organization to the postwar General Agreement on Tariffs and Trade) has long been a deeply divided organization, whose members could not even decide on a new director-general to replace Renato Ruggiero. At the end of the day, the members of the developing and developed worlds disagreed so fundamentally and distrusted each other so thoroughly that they could agree only to appoint two directors-general to share the term of office. Thus we have Michael Moore of New Zealand running the show for now, with Supachai Panitchpakdi of Thailand waiting in the

wings for September 2002.

With developing/smaller countries worried the WTO is simply a vehicle for US and European parochialism; the US, Europe and Japan far apart on key issues, and Moore a virtual lame duck at the start of his term, Seattle was doomed from the outset. Unfortunately, trade diplomats couldn't find a way to cut the baby in half, as they did with the directorship impasse. For the next round, the divisions are much broader and more difficult to paper over.

WTO: ABOUT TO BE OBSOLETE?

Some suggest the WTO is too inclusive to be a community with common interests. That may be true in part. But the *raison d'être* of the organization – and the basis for its success to date – has been the capacity to find common interests where they are not obvious. In fact, the blossoming of stronger civil societies in the developing countries, and the tutoring they received from non-governmental organizations in making their demands heard, is the only real success story in Seattle. A more comprehensive explanation for the failure of the talks, however, is that the WTO is a victim of the law of diminishing returns, increased regionalism and the end of the cold war.

The very success of the WTO means that the incremental return from further trade liberalization is modest. Trade barriers are way down from the 1970's perspective, and the China agreement brings the last major economy into the rules-based trading system. The big prizes have thus been won and, in the view of many, it's not worth the effort to wrestle in multilateral forums for the smaller ones.

Now that a critical threshold of openness and (more or less) rule of law has been adopted by most countries, one member reducing tariffs must accept the exports of the whole

group – and may get only increased competitiveness for one industry of its own in return. Further progress thus must deal with thorny issues affecting individual sectors and even specific companies.

At the same time, regional trade blocks have become more significant. The EU, Mercosur in South America and the North American Free Trade Agreement all have a more direct and tangible impact on their members than the WTO, shifting the focus of trade policy to the bilateral or inter-regional level. These sub-WTO trade groups also have the coherence (or, at least, large-enough key players) to impose sanctions, allowing enforcement mechanisms that work without consensus.

Regionalization devalues the broader multilateral arena except as a forum to whine about things when the bilateral or inter-block efforts stall. For example, the emergence of Europe as a bilateral partner/challenger is far more important to the US than any possible progress on access to smaller markets. Battles over meat and bananas and copyrights will be fought between Washington and Brussels first, with Geneva a venue of last recourse. WTO talks are all well and good, but trade-block members know the next arena is inter-block, and will focus their efforts on strengthening their own blocks and healing rifts where necessary (e.g., the Britain-France beef dispute in the EU).

Last but not least, the collapse of Communism means that the big political drivers of multilateralism have run out of steam. The postwar trade story was as much about securing trade access for geopolitical reasons as about the economic benefits that opening might bring. With the triumph of a capitalist model closely linked to open trade, the imperative to sacrifice domestic interests in the name of free trade and all its former

TRENDS

geopolitical implications is gone. Why expend energy on what amounts to international public goods?

The paradox of a long period of stability and growth born in part out of trade and capital mobility is that domestic interests now hold sway – just as the late great Mancur Olson, the author of *The Logic of Collective Action*, always told us they would. Despite

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strong overall growth, concern remains about the hollowing out of manufacturing sectors in the US and Britain (and that goes double for the industrial countries still grappling with double-digit unemployment). The last major play of the trade card for global geopolitical purposes was made to bring China into the fold.

Put simply, regionalism has more force than global geopolitics in the post-cold-war world. Trade will remain a tool for regional politics, spurring more interest in the EU, Mercosur, the Free Trade Association of the Americas, etc., than in the WTO. Bilateral deals will still make sense. It is noteworthy that China and Brazil inked a tariff-reducing agreement in Seattle – even as the tear gas swirled around the city – and within a week of the collapse of the WTO talks, Japan and Singapore announced that they would begin studying a bilateral free-trade agreement.

Sure, the few remaining North Koreas and Cubas of this world have yet to be won over,

but who really cares about them? Incentives for a large developed country to make concessions to smaller countries have all but disappeared, because small countries can rarely give as much market access as they get. The focus is bilateral – or on competing trading blocks, where there is real danger of trade diversion and real opportunity if barriers can be brought down.

There is no great world power willing to absorb the costs of international cooperation. The single remaining superpower has no need to, and its actual dealings with the only other contender for leadership in trade – the European Union – will inevitably be bilateral. Emerging markets know how little bargaining power they have; that's why they were so desperate to control the WTO leadership. Other nations know their best bet for progress on anything from free-trade areas to dumping to bad beef is bilateral talks.

DOES IT MATTER?

Some may applaud the news that another international bureaucracy is ready to go into deep freeze. We would hold the applause, though – and not just on the grounds that trade bureaucrats will continue to feed at the public trough, whether or not they accomplish anything. In the case of international trade, the law of organizational entropy looms large: lack of cooperative progress tends to result in deterioration. Without constant dynamic strengthening of the WTO multilateral process, we are likely to see ever more bilateral disagreements and forced “settlements,” ever more protectionist wolves prowling in the sheepskins of labor protection and environmentalism.

We should also care about a loss of

momentum because even standing still (were it possible) would be an opportunity lost – an opportunity to integrate more fully the cusp economies of the African Maghreb, southeast Asia and Latin America into the developed world. Such integration is necessary (but not sufficient) to keep them on the path toward sustainable growth and income levels that will make them not just contributors to the world's supply of goods and services, but symbiotic consumers of the developed countries' products. As populations in the developed world grow grayer, only the continuing integration of new regions into the global consumer economy will power growth in the next century.

PROGRESS WITHOUT VICTORY

Who won the Battle of Seattle?

One claim of victory will come from cynics who don't believe international organizations can accomplish anything. Yet, the WTO lives on. Its built-in agenda, set aside from the Uruguay Round, kicks in next year, and in due course trade negotiators will meet to try again to set a new agenda.

There was no winner among the delegates themselves: while each country may have successfully defended its principles and narrow interests, none would have been in Seattle if they felt that autarky was in their best interest.

The protestors think they won, but that victory is likely to be as evanescent as sunshine in the drizzle capital of the Northwest. Sure, they helped poison the atmosphere, but that is not what ultimately scuttled the round. Antitrade groups benefited from negotiators' lack of political will, but the changes they sought to prevent will occur anyway.

Countries that have adopted the liberal, capitalist economic model cannot avoid cross-border sharing of resources. Given the

lack of political will, internal needs will have to be the drivers of change. For better or worse, those needs remain great.

Crisis-wracked countries in Asia and elsewhere are looking for deep pockets – foreign owners – to recapitalize financial institutions and to take stakes in local companies. From Korea to Thailand to Mexico, the doors have been opened from the inside. It should come as no surprise that, within just a few weeks of agreeing to open its financial sector under the WTO, the Chinese government is considering getting some of the incoming capital for its own coffers by privatizing its bankrupt state banks.

An entirely different class of internal need is evident in the Indian computer software industry, for instance, which has learned how to keep jobs at home by exporting intermediate software services instead of exporting skilled laborers. Knowledge-based industries have joined financial capital in being virtually stateless. But the influence extends beyond the affected sector. Bangalore represents more than just a successful export industry; it has irrevocably shattered the autarkic trade and development model in India. Eventually even the EU (and the US and Japan) will succumb to a third class of need – one deriving from demographic shifts and the consequent incentive to reduce dependence on goods and services produced at home.

These economic forces at the national, sectoral and company level mean that cross-border integration will continue, business by business and acquisition by acquisition. The global businesses and globally aware consumers of the Internet era will not be held back easily by borders or protesters. So long as governments don't develop new ways to block that progress, letting trade policy be driven by economic need rather than political intentions may not be such a bad thing. **M**