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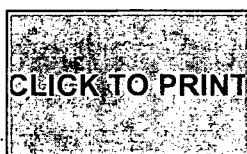
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(2) Subject* **How Can the WTO Survive Seattle?**

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BAUCUS

Senator Max Baucus
"How Can the WTO Survive Seattle?"
Economic Strategy Institute Policy Forum
Washington, D.C.
February 3, 2000

It is always a pleasure to participate in one of Clyde's sessions. He has a unique ability to bring together a group of panelists with widely diverse views to shed light on some of the critical issues of the day. I apologize that I will have to leave early, but that seems to be part of my job description.

Last year at this time, if we looked ahead to our 2000 election year, most of us would probably have predicted that, as in the past, trade would not be on the agenda, either the policy agenda or the political agenda. We were wrong. Trade issues are now front and center.

This year's trade agenda has two central components. One is whether China will join the WTO and whether the United States will approve permanent Normal Trade Relations, PNTR, for China. The second issue for this year is how the global trading system moves to the next stage of liberalization and expansion of trade opportunities. I don't mean to give short shrift to the Africa Growth and Opportunity Act or the Enhanced Caribbean Basin Initiative. But the scale is quite different.

On the first, China and the WTO, I remain relatively optimistic that the Congress will pass PNTR this year. This deal is simply so good for so many American business sectors -- manufacturing, agriculture, services -- and of such benefit to American farmers and workers. My optimism presupposes, however, that China will complete its remaining bilateral agreements, in particular, with the European Union, but also with the dozen or so other countries where these negotiations are still pending. It also presupposes that China, and the WTO membership in Geneva, work expeditiously to complete the necessary multilateral arrangements. I am most worried right now that the bilateral and multilateral negotiations will take so much time that there will simply not be enough legislative days left in this Congressional session. It's not merely a matter of our political calendar in an election year. It is also a question of Congress simply being in session fewer days than in an off-year.

Turning to the second issue, which is the topic of today's session, let me provide a few of my thoughts and then raise some questions. I wish I had the answers, but I don't think anyone does at this point.

Commenting on the Yankee's loss of the 1960 World Series, Yogi Berra said "We made too many wrong mistakes." With the benefit of hindsight, and my hindsight is excellent, I conclude that the failure of the talks in Seattle was almost inevitable. One could argue that they collapsed in part from their own weight, in part because of a lack of sufficient domestic support going into Seattle, and in part because of the actions of our trading

environment, labor, and consumer issues must be addressed at the WTO. Even in the United States, of course, we do not yet have a domestic consensus on this, and the Administration turned to these issues very late in the game. The activists on the streets of Seattle did not cause the failure to launch a new round. But what those activists stood for, the emergence of this third sector, along with government and business, in global trade politics, was certainly an element in the failure at Seattle.

Sixth, Japan. At the end of 1999, the world's second largest economy was still unwilling to play a leadership role in the management of global trade policy. Japan is finally showing signs of emerging from its lost decade of economic stagnation. Although we see some indications of change in Japan's economic structure and the way in which the government manages the economy, I worry that the roots of Japan's mercantilist approach to the world are as strong and pervasive as ever. The continued raw protection of Japanese trade policy was exemplified by their rejection of the Early Voluntary Sectoral Liberalization initiatives that were supported by their fellow APEC members, by their attacks on US anti-dumping laws and the WTO Dumping Code in order to continue to insulate and protect Japan's cartelized industries, such as steel and flat glass, and by Japan's rejection of genuine agricultural liberalization. A country representing 15 percent of the world's economy must be prepared to support and lead a liberal trade regime, and bear some of the costs as the United States has done for decades.

I should cite our European friends, who also used the concept of multifunctionality of agriculture to help them maintain the serious trade distortions caused by their agricultural export subsidies.

Seventh and last, American hubris. Many countries are unhappy with what they see as an overbearing America, lecturing the world because of our victory in the Cold War where we are now the overwhelmingly most powerful military force in the world and our victory on the economic front where our companies and technology are so dominant and our growth so vibrant. I happen to believe that the current American economic model is a good one. With four percent of the world's population, we represent over 27 percent of global output and more than 53 percent of the world's stock market capitalization. We see unprecedented prosperity in our society, even though we have not solved the growing problem of unequal distribution of income and benefits. Many other countries, whether in Europe, China, Japan, and elsewhere, can learn from our recent experience about the advantages of deregulation, transparency, and letting the markets operate without onerous government control. They should adopt these features, although it will have to be in a way that is compatible with their own culture, history, and social mores. For our part, perhaps we could be a bit more modest in the way we flaunt our success.

The world has not stopped because a meeting in November in Seattle failed to launch a new round. It would be wonderful if we could just sit back, reflect on what happened, and then spend months planning our course.

But there is a lot going on, and we cannot afford to be dealt out of the game. For example, Japan recently decided to consider a bilateral FTA with Singapore and has thought seriously about FTA's with Mexico and South Korea. Japan talks about a "multilayered" policy where bilateral and regional free-trade arrangements would complement multilateral negotiations at the WTO. Korea is considering a list of countries they think might fit into bilateral FTA schemes. The EU is talking to MERCOSUR and has negotiated an FTA with Mexico. Chile and Singapore are talking about an FTA. For our part, we participate in an APEC that is stalled and an FTAA in this hemisphere that is moving glacially.

We also need to figure out how to reconcile environmental concerns and labor concerns with trade. Seattle was the symbolic conclusion of a period of several years during which environment and labor moved from the periphery of American trade policy to a role where they can veto trade policy initiatives. Now, these issues must be included at the center of the stage as we consider how to continue to promote international trade. That is where environmental and labor issues rightfully belong.

We don't trade just for the sake of trade. Trade must lead to improvements in the quality of life, for Americans and for others around the world. Environmental concerns deal directly with the quality of life. So do labor and consumer issues. Trade with a human face. The WTO is not equipped to deal with these issues.

You might be asking yourself how I reconcile these very skeptical views of the WTO's future role with my firm commitment to see China accede. I am not suggesting that we dismantle the WTO. Far from it. I am trying to distinguish, on the one hand, the current global trading system, which is huge, growing, and complex, and, on the other hand, where we go in the future. The Clinton Administration negotiated an exceptional arrangement with China that will serve our country well, and will also serve China's interests. Assuming that we manage the vitally important implementation issues well, Chinese accession to the WTO will be the means to open the Chinese economy as never before, will potentially help in promoting significant change within China, and will provide significant advantages to American manufacturers, farmers, workers, service providers, and investors.

I regret not being able to provide a clear road map today. I hope this session, and others like it in Washington and around the country, will help us find the route to global prosperity while we maintain a clean and healthy environment and respect for fundamental labor and human rights.

Thank you.