



# What Went Wrong In Seattle?

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## What Went Wrong In Seattle?<sup>1</sup>

The Third WTO Ministerial Meeting in Seattle was meant to kick-off the next round of multilateral trade negotiations. However, the meetings were adjourned with no agreement having been reached. The reasons for the collapse were many and varied but had little to do with the protesters who filled the streets of Seattle and dominated the evening news broadcasts.

Perhaps the cover of *The Economist*<sup>2</sup> magazine captured the true significance of the Seattle meetings best. Under the heading "The Real Losers in Seattle" was the picture of a poor child in a developing country. It would not have been much of a stretch to have included a picture of a North American grain farmer in the background.

Selling freer trade is always a difficult task. Trading relationships are complex and highly controversial. It has taken more than 50 years to lower tariffs on industrial goods from an average of 40 percent to the current 4 percent. The push towards trade liberalization in agri-food, services, investment and intellectual property is still in the beginning stages<sup>3</sup>. It is not unusual to see moves towards freer trade interrupted by periods of no progress or even backsliding. Hence, the failure of Trade Ministers to launch a new round in Seattle is not particularly unusual or surprising. In fact, for economists with memories of the Uruguay Round of trade negotiations, it is reassuring that agri-food trade was not the issue that caused the negotiations to be suspended. However, disagreements about the extent and pace of liberalization in agri-food remain deep-seated between the European Union, Japan, and the major agri-food exporters.

What did cause the negotiating collapse, and what does it mean for Canada? The failure to reach an agreement was caused by the lack of political will and leadership - primarily in the United States and the European Union - to forge the compromises necessary to launch a new Round. There was no respected world leader willing to make the strong case for freer trade<sup>4</sup>. To point out:

- the benefits of liberalized trade for all countries, rich and poor;
- the benefits of liberalized trade for the environment;

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<sup>1</sup> Karl D. Meilke, Co-Director, Canadian Agri-Food Trade Research Network, Department of Agricultural Economics and Business, University of Guelph. The author greatly appreciates the comments provided by the other members of the CATRN on this document, however any errors are solely the authors.

<sup>2</sup> *The Economist*, December 11, 1999. *The Economist* carried an excellent series of articles dealing with globalization and the WTO negotiations in the November 27, December 4 and December 11, 1999 issues.

<sup>3</sup> Negotiations on a Multinational Agreement on Investment were held by the OECD, however, when an agreement could not be reached some WTO member countries were hoping to revive these negotiations in the WTO.

<sup>4</sup> A number of political events resulted in negotiators from the European Union and the United States, as well as WTO officials being ill prepared to launch a new Round in December: a lame duck President in the United States and an election campaign well underway; a new European Commission as a result of scandals in Europe; and a protracted debate in the WTO about naming a new Director General.

- the benefits of a transparent, rules based and nondiscriminatory trading regime; and
- to present a vision of institutional reform that would result in the WTO being better able to fulfill its mandate.

### **Gains from Trade**

Since 1950 world GDP has increased by 600 percent while world trade has increased by nearly 2000 percent. In 1950, world exports accounted for 8 percent of GDP and by 1999 they had increased to 26.4 percent. While increased world trade and openness have not been the only engines for growth and improved living standards, they have been important ones. It has been proven time and again that countries with an outward trade orientation grow and flourish, while those that hide behind protectionist barriers stagnate.

That the multilateral trade negotiations failed in Seattle, the home of Boeing Corporation and Microsoft, two of the world's largest transnationals is ironic. Those protesting the WTO need to ask themselves if the world would be a better place if many billions of dollars of economic activity were removed from the marketplace, and the United States could not trade its airplanes and computer software?

Closer to home the case for trade is even more compelling. In 1998, over forty percent of Canada's gross domestic product (GDP) was accounted for by exports and the value of agri-food exports was more than 75 percent of our farm cash receipts. These exports allow Canadians to enjoy a higher standard of living and to consume imported products that we can not produce, or can only produce at very high prices.

#### **GDP and Exports of Goods and Services, bil. dol.**

<b>Year</b>	<b>GDP</b>	<b>Exports</b>	<b>Percent</b>
<b>1970</b>	<b>89.1</b>	<b>20.1</b>	<b>22.6</b>
<b>1980</b>	<b>309.9</b>	<b>87.6</b>	<b>28.3</b>
<b>1990</b>	<b>645.6</b>	<b>168.9</b>	<b>26.2</b>
<b>1998</b>	<b>866.2</b>	<b>370.0</b>	<b>42.7</b>

#### **Farm Cash Receipts and Agri-Food Exports, bil. dol.**

<b>Year</b>	<b>Farm Cash Recept.</b>	<b>Exports</b>	<b>Percent</b>
<b>1980</b>	<b>16.0</b>	<b>8.3</b>	<b>51.8</b>
<b>1990</b>	<b>22.0</b>	<b>13.5</b>	<b>61.3</b>
<b>1998</b>	<b>29.6</b>	<b>22.6</b>	<b>76.3</b>

Although the case for trade liberalization is a compelling one it would be a mistake to ignore the issues Trade Ministers will have to confront in order to forge an agenda for a new Round. Some of these issues are discussed briefly below.

## **WTO Structure**

Since the completion of the Uruguay Round of trade negotiations more than 30 new countries have joined the WTO. The current membership consists of 135 countries, most of them in the developing world. The developing countries are not homogeneous, ranging from agricultural exporters who are members of the Cairns Group to countries that are large net food importers.

Traditionally, the GATT/WTO has made decisions based on consensus. When the membership was smaller and more homogeneous this method of decision making served the GATT/WTO well. However, with a larger and more heterogeneous membership it is unclear if "consensus" can continue to be the way all decisions are made. Even if consensus decision making continues, a way will have to be found to give developing countries greater voice in the processes leading up to decision documents. In addition, developing countries are asking for early and meaningful liberalization initiatives by the developed world, before they will commit to a new round of negotiations.

Of equal importance is the necessity to redefine the mandate of the WTO. Is the WTO the proper forum in which to discuss environmental, investment and labor issues? If not, what is the proper forum, and how will the responsibilities and powers of the various international bodies be determined? Are new international organizations required? Sylvia Ostry, Chair of the Centre for International Studies at the University of Toronto has argued that we need a World Environment Organization to debate and resolve transboundary environmental issues<sup>5</sup>. Most economists would argue that the International Labor Organization is the proper forum in which to consider labor issues.

## **Developing Country Issues**

Developing countries argue that they have not benefited as much from trade liberalization as they were promised during the Uruguay Round, particularly for clothing, textiles and agri-food where developed country markets remain heavily protected. In addition, developing countries argue that as soon as they become competitive in developed country markets they are often subjected to anti-dumping actions. At best, fighting an anti-dumping action is expensive, at worst it excludes developing country products from developed country markets.

In addition, the developing world fears that developed countries will use stringent environmental and labor regulations as thinly disguised protectionism. The developing world sees its large endowment of low-skilled labor as its major comparative advantage in gaining access to developed country markets. Developing countries can not compete

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<sup>5</sup> Ostry, S. "Foggy in Seattle." *National Post*. November 26, 1999.

in the high-growth, high-technology markets dominated by the major developed countries. The developing world's comparative advantage lies in supplying goods that require, and can be produced with its abundant supply of unskilled labor.

In the past, developing countries have been offered "special and differential" treatment in the GATT/WTO. This allowed developing countries longer periods of time in which to phase-in trade liberalization measures and/or made them subject to less stringent rules. Perhaps it is time to rethink the way special and differential treatment is handled by giving developing countries early and preferential access to developed country markets.

### **The Agri-Food Negotiations**

As mandated in the Uruguay Round Agreement, multilateral negotiations on agri-food and services will begin in January 2000. However, with no agreement on the scope of the general negotiations and no deadline, it is romantic to think that much progress will be made. This means that:

- export subsidies will continue to be employed in trading agri-food products thereby depressing the price Canadian farmers receive for their products;
- that tariff rate quotas and different rules for quota administration will continue to exclude Canadian products from foreign markets;
- that the "Peace Clause" will expire at the end of 2003 before new negotiations are concluded, opening a wide range of domestic and export subsidies to possible countervailing duty actions: and
- that no decisions will be made on trade in agri-food products created using biotechnology.

### **What Does It Mean?**

The start of a new round of multilateral trade negotiations has been seriously delayed. At best, meaningful negotiations might begin in 2002, postponing any conclusion of the Round until the last half of the decade.

As a result, Canada, and other nations are likely to seek out alternatives through bilateral trade agreements and the expansion of regional trading relationships. Whether these efforts strengthen or weaken the multilateral trading system remains to be seen.

In order to make progress at the multilateral level the short-term mercantilist nature of the WTO negotiation process may require fundamental reform. The request-and-offer process of the past, where export opportunities were "paid for" with "concessions" on imports appears to be inadequate to deal with the current problems and issues. A long-term vision of the world trading system, designed to accelerate economic

growth, ensure export opportunities for developing countries, provide predictable international rules for investment and intellectual property, while at the same time protecting the environment is required. The request-and-offer process was successful in lowering tariffs on industrial goods, however, new methods and perhaps new institutions will have to be found to deal with the current trade agenda.