

# National Intelligence Council

## Prospects for WTO Trade Negotiations After Seattle: Foreign Strategies and Perspectives

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*The views expressed are those of individuals and do not represent official US intelligence or policy positions. The National Intelligence Council routinely sponsors such unclassified conferences with outside experts to gain knowledge and insight to sharpen the level of debate on critical issues.*

### The Strategic Analysis Program

The NIC's Strategic Analysis Program is a systematic research and development program on broad cross-cutting issues for the new millennium. The first two years of the program culminated in the production of a major report, *Global Trends 2015: A Dialogue About the Future with Nongovernment Experts*. The paper identifies seven key drivers that will shape the world in 2015. The Strategic Analysis Program will continue to examine broad features of the changing security environment, such as:

- **The Changing Nature and Sources of Military Power:** How changes in the global economy and S&T advances are likely to alter the nature of military challenges. The changing military doctrines of emerging WMD states.
- **The Expanding Revolution in Science and Technology:** The implications of the growing interactions among critical technologies, including information technology, biotechnology, materials technology, and nanotechnology.
- **Global Economic Challenges and Globalization:** The implications of the worldwide economic downturn for political and social stability. The prospects for globalization.
- **The Geopolitics of Energy:** The geopolitical and economic implications of the changing oil market: the world's ability to satisfy the growing demand for energy, and OPEC's role.

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### Summary

In a recent conference, trade experts identified three primary reasons the World Trade Organization (WTO) failed to launch a new trade Round at its December 1999 Ministerial. First, leading members were unable to resolve differences on critical issues prior to the gathering. In addition, many developing countries and nongovernmental organizations were more assertive than they had been at previous conferences. Finally,

in recent years, the WTO has expanded the range of issues it addresses, which has made efforts to reach a consensus on any point more difficult.

According to the speakers, as a result of the acrimonious Ministerial, the WTO has suffered a substantial loss of credibility, which will impair efforts to launch a new Round in the near term. There is no immediate alternative to strong US leadership, and WTO negotiations will be more complicated because developing countries and nongovernmental organizations will be more inclined to resist trade liberalization efforts that they believe do not advance their interests. Experts at the conference offered a variety of assessments regarding the course the WTO might choose to follow this year. The majority argued that if the trade body is seeking to rebuild confidence, it could continue with scheduled meetings on agriculture and services and use the time to rebuild confidence. A minority, however, held that the forum is too fractured to make progress, thus talks would only undermine the already declining prestige of the trade body.

The experts identified several long-run challenges that the WTO will probably need to address to be an effective decisionmaking institution, including:

***Bridging the developed-developing country gap***

Costa Rica, Mexico, and South Africa generally support trade liberalization and have credibility among developed and developing states; thus they are in a position to meld the interests of the two sides.

***Enacting institutional reforms***

The organization's expansive agenda and large membership require that it adopt policies that facilitate decisionmaking, especially before new members such as China and Russia join. The trade body may try to increase transparency to promote greater trust in its procedures. Also, to avoid protracted and bitter selections such as the forum suffered last year, the WTO could review its procedures for electing a new director general.

***Managing the backlash against globalization***

Supporters of freer trade could launch a massive educational program to highlight the gains for all countries from expanded trade and to counter the dire assertions made by nongovernmental organizations (NGOs).

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## **Overview**

In the aftermath of the controversial WTO Ministerial in Seattle that ended in December 1999, the National Intelligence Council and the Department of State's Intelligence and Research Bureau- in consultation with the Economic Security Group of the Central Intelligence Agency-hosted a one-day conference of US Government officials, former trade negotiators, academics, and trade experts to examine prospects for negotiations this year. The conference addressed three main topics. First, participants identified the

lessons that various countries derived from the Ministerial. In the second session, attendees examined how the lessons from Seattle and other factors would combine to promote or discourage progress on trade negotiations this year. The conference concluded by looking further down the road to analyze larger issues the WTO will face in its efforts to be an effective decisionmaking body regardless of its record on trade negotiations this year.

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## **Session I:**

### **Lessons Learned From Seattle**

The experts analyzed what the Ministerial revealed about the dynamics of international trade negotiations. In general, they agreed on three primary factors that prevented the Ministerial from launching a new trade Round.

#### **Lack of Major-Power Coordination**

Perhaps the single most important reason for the collapse of the Ministerial was the failure of leading states to iron out differences on key issues, such as agriculture, prior to the conference. For its part, the European Union was preoccupied with internal matters, which slowed efforts to develop a unified EU position on WTO-related issues. Another reason for the absence of coordination between major players was, according to some participants, that EU delegates consider resisting expansion of US influence to be one of their negotiating objectives. Thus they will challenge the US on trivial issues simply to complicate talks. This tendency among EU states has become more pronounced over the last year as the Eurodollar has established itself in international financial markets and has begun to enhance economic growth in Europe.

Participants also expressed concern that many countries may not be willing to commit to a new Round during a US election year, fearing another failure should the United States not show flexibility. They also have expressed concern that agreements made by the current administration may not be endorsed by the next.

#### **More Assertive NGOs and Developing Countries**

Regardless of the level of cooperation among industrialized countries, developing countries and NGOs were poised to be more aggressive than in previous negotiations.

- Developing countries—even small states like Bolivia and the Dominican Republic—were more assertive in part because the expansion of the WTO agenda has increased the likelihood that a member will find issues that it views as important to its national economic interests. ASEAN countries in the Cairns Group were disappointed with what they perceived to be slow progress on agriculture and were not inclined to discipline their developing country partners. As a result, the already complex negotiations became more tangled.

NGOs are now more inclined to see the WTO as unrepresentative of national populations, and the emergence of the Internet has increased the ability of these transnational organizations to coordinate their activities, publicize their agendas, and mobilize support.

Although panelists agreed that the Ministerial would have failed even without the headline-grabbing demonstrations, NGOs and developing countries now believe they have blocking power within the trade body and are likely to continue to be assertive in future negotiations. For example, recalcitrant developing countries, such as Pakistan, have been emboldened by what they view as their successful resistance against US initiatives on labor and the environment.

### **The WTO: A Victim of Its Own Success**

The WTO arguably has been the most successful post-World War II multilateral organization, given the dramatic progress in trade liberalization and expansion of trade. Consequently, policies that have failed or languished in other fora have been pushed onto the trade body by representatives who want to see more progress. Chief among these is the move to establish global standards for labor, including the treatment of children. The WTO has even taken on issues that have no formal representative body, such as those concerning the environment. This "mission creep" within the WTO, however, has left it with a sprawling and unfocused agenda that makes reaching consensus extremely difficult. To generate interest in the talks, the United States wanted an agenda that had something for everyone but was not so loaded that it became unwieldy. One participant, however, noted that starting with a huge text that had to be pared back created a dynamic in which many countries felt as if they were having to give up positions. Another speaker cited competition policy and investment as issues that would be difficult for the WTO to tackle now. Some presenters suggested that enhancing the role of other international organizations, such as the International Labor Organization on child labor issues, could help the WTO consolidate its agenda and clarify its mission.

Several panelists indicated concern about a severely weakened WTO.

- They argued that the protracted and rancorous election last year of a new director general delayed the organization's preparation for the December meeting. The election embittered many members and made "green room" discussions-small working group meetings of select members-in Seattle more contentious.

The WTO is in danger of losing the support of the business community-traditionally one of its key backers-because there are growing doubts in the business community as to whether the WTO can deliver on its agenda.

During the question and answer session, the most spirited discussion centered on opportunities for the WTO to repair its damaged credibility. The majority of speakers

judged that discussions on the built-in agenda could serve as confidence-building exercise. They were concerned that canceling scheduled talks would send the wrong message and could encourage some countries to backtrack on commitments.

- A vocal minority argued that the organization is in grave danger because it lacks vision and direction, and thus any talks this year are doomed to failure. Consequently, launching a new Round this year might not be fruitful, given the risk that any negotiations would only further undermine the tattered prestige of the trade forum. Instead, key industrialized-country leaders might be better served spending the year consolidating their domestic support before moving forward with new talks.

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## **Session II:**

### **Near-Term Prospects for Trade Negotiations**

In the next session, experts examined countries' views on the prospects for progress on trade negotiations and signs of flexibility in members' demands. The first presenter declared that the greatest threat to progress this year is a weak and divided Quad (a quadrupartite group comprising Canada, the European Union, Japan, and the United States) that invites irresponsible developing countries to try to fill the political gap. Pakistan, in particular, is becoming more assertive and is leading a like-minded group of developing countries that is trying to delay and extend deadlines for trade reform.

He outlined a three-pronged strategy for reviving negotiations that featured promoting alternatives to Pakistan, continuing with scheduled talks, and moderating Quad positions. He noted that:

- Several emerging market countries-such as Costa Rica, Mexico, and South Africa-generally support trade liberalization, have credibility among both developed and developing states, and thus are in a position to bridge the interests of the two groups.

Although significant progress on trade liberalization is unlikely this year, continuing with the scheduled talks on the built-in agenda could keep countries engaged and decrease the possibility of a rollback of hard-fought reforms.

There are steps Quad members could take to create a climate in which developing countries are more willing to compromise; in particular, Japan could relax its stand on multifunctionality in agriculture; the European Union might choose to moderate its position on agricultural supports; and the United States could tone down rhetoric on labor and be more flexible on antidumping. A second expert analyzed the role of Japan in the WTO. He argued that the Japanese delegation left the Ministerial with a sense of relief and glee. They were relieved that, because of the chaos of the conference, Japan was not pressed hard on its multifunctionality position and had not been put in a position of having to fold under US pressure. At the same time, they were delighted that the

conclave had been a public relations disaster for the United States, because increasingly Tokyo has been chafing at what it views as Washington's triumphalism while Japan's economy falters.

The speaker also argued that Japan will continue to press the United States to moderate its antidumping position, but this objective is not as important to Tokyo as protecting its agricultural position. Although last year Japan passed its first agricultural law in 38 years—legislation that emphasized the need for fairness in agricultural imports—it is not likely to soften its position in the WTO. Instead, Japan will probably seek a long-term alliance with the European Union to blunt US pressure on agricultural liberalization.

Another speaker gave a more sanguine assessment of the prospects for progress on services. His thesis was that services negotiations will continue as though Seattle had not occurred, because of nearly unanimous agreement to work from the Seattle text on services. The General Agreement on Trade in Services (GATS) Council has been instructed to carry out talks and work on market access—which was previously relegated to the rules committee—can be taken up by the council. There is also encouraging support for service reform from emerging market countries such as India and Pakistan. A concern, however, is that lack of progress on agriculture might slow services talks given that several members, such as Brazil, have said that they want strict symmetry of progress between agriculture and services.

The final presenter was optimistic about the potential for progress on agricultural issues, despite the December Ministerial. He reasoned that progress made during the Uruguay Round on agriculture will not be forgotten. Japan imported no rice prior to Uruguay Round concessions, but subsequently was able to initiate unpopular reforms to open domestic markets. He argued that the most significant change since the Uruguay Round is that Japan and the European Union now recognize that they need agricultural reform. Because of domestic pressure, however, they will need the cover of the WTO to implement reforms. This process will take time and we are not likely to see much change this year, but the prospects for success over the longer term are good.

### **Luncheon Address: Responding to Globo-Phobia**

The luncheon speaker described strategies industrialized countries might employ to manage the backlash against globalization. He asserted that earlier this year appeared to be the perfect time to launch a new trade Round because the US economy is strong, its strength is directly related to steps the United States has taken to open up to global markets, and the benefits of openness are being shared across a wide spectrum of income classes. The Ministerial, however, failed to launch a Round in large part because of widely held suspicion of the consequences of globalization.

- The public has a poor understanding of the benefits of transnational markets and thus is easily influenced by a small, but well-organized, minority of critics, largely from NGOs.



International competition is displacing some workers who have been understandably vocal in complaining that their jobs are going to foreign workers.

Globalization and the dispersion of power that accompanies it are viewed as a threat to governance by leaders in many developing countries.

Each of these obstacles can be overcome, according to the speaker. In particular, he contended, industrialized countries could launch a coordinated education campaign to make clear the benefits of globalization. The effort could highlight the gains for consumers of open trade and point out the large and growing number of US jobs that depend on exports. The education crusade would be most effective if it acknowledged that keeping US markets open to international forces will inevitably cause some workers to be displaced in the short run. As the domestic labor market adjusts, however, workers will have more stable employment that will exploit US comparative advantages in production and trade. Indeed, now is a good time to push forward with globalization efforts because the adjustment process is easier in a robust, full-employment economy.

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## **Session III: Future Challenges**

The conference concluded with an examination of the issues that will present the greatest long-term challenges to the WTO's efforts to be an effective decisionmaking body. One speaker outlined a broad list of obstacles the organization will face.

- The issues of labor and environment will continue to complicate trade policy, especially for the United States.

Increasing WTO transparency could help quell suspicions about its decisionmaking process. Greater transparency and a rising number of developing countries, however, will make efforts to reach a consensus on any issue more challenging.

Institutional reforms are needed to streamline the deliberative process. Attempts early in the Ministerial to allow all parties to speak created laborious, slow-moving sessions. In the "green room" sessions during the last few days, however, key countries representing regional blocs did a poor job of coordinating discussions with their constituent members. The WTO will be challenged to find a way to allow all members to be heard so that they will support decisions without making the talks so cumbersome that progress is impossible.

China's entry will make WTO decisionmaking more complicated but not unmanageable. Beijing's performance in APEC suggests that China will want to position itself as a leader of developing countries but will not want to be seen as a barrier to progress.

The process for selecting the director general creates enmity. The contentious election process last year undermined chances for launching a new Round in December.

Moreover, the decision to split the term between Moore and Supachai satisfied no one, and it ensured that Supachai- who remains bitter toward the United States for not supporting his bid-will be director general during critical years if a new Round is launched soon.

The next speaker followed with a somewhat more optimistic assessment of the prospects for the WTO. He argued that the recent decision on the Bio-Safety Protocol- albeit outside of the WTO-has shown that participants can compromise on a trade-related issue for the good of the group. The decision on the United States-Australia leather case, however, has set a disturbing precedent because the WTO is forcing the losing government to take property from a private industry to settle the case.

The session concluded with a presentation that raised additional concerns about challenges ahead for the WTO.

- Negotiations on genetically modified organisms (GMOs) pose a unique challenge to the WTO. The European Union has been leading a campaign to caution consumers about what it sees as the dangers of GMOs. As a result, consumer groups-which have long benefited from free trade and supported liberalization-are becoming concerned about the WTO's power and are leading calls for protection.

Subnational governments also pose a threat to further trade reform. Nontariff barriers at the subnational level in countries such as China will slow implementation of liberalization policies on issues such as services and intellectual property rights.

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