

How to Reform the WTO to Level the Playing Field

The impact of globalization has sparked heated polemics worldwide among policymakers, academics and representatives from all civil society groups. The protests in Seattle during the World Trade Organization's (WTO) meetings last December drive home the fact that despite consensus on the need for increased trade liberalization, there is mounting concern that globalization may negatively affect developing and transition economies.

Proponents of globalization and the WTO claim that trade liberalization has produced many benefits internationally. They cite, among others, more efficient use of resources, higher levels of growth and prosperity, technology transfers, and increased economic opportunities. By contrast, their opponents claim that the WTO is an undemocratic, secretive institution designed to enhance the fortunes of the industrialized countries to the detriment of the developing countries. Moreover, WTO critics contend that rather than benefiting from trade liberalization, many developing countries that have opened their markets are now worse off. This claim has unleashed popular discontent and opposition to globalization and market-oriented reforms in some developing nations.

In an era where democracies and market-based economies are taking hold across the globe because they offer citizens the greatest opportunities for unfettered political participation and economic entrepreneurship, it is timely to

ask whether the WTO, one of the key pillars of globalization, is indeed supporting or hindering these positive trends. To evaluate this critical question, *Economic Reform Today* interviewed several high-level business association leaders from different regions of the world in order to give its readers a snapshot of business views on this most timely subject. Below are their responses concerning the impact of globalization on developing and transition economies and on the design and prospects for a global free-trade system.

ERT: *Some nations' leaders are openly critical of globalization, viewing it as a bad deal for their countries as long as markets in developed countries remain closed. What do you think of this viewpoint in the context of what you see happening in the developing countries?*

J. A. Fernandes: Brazil liberalized its markets unilaterally in an effort to reduce the state's role, stabilize the economy and curb inflation. Today Brazil's medium tariffs are in line with international ones. Any future liberalization of the country's markets will depend on reciprocal market openings by other countries in the global trading system.

M. Cattai: I have talked to many of the developing country leaders and there are different opinions on this issue. However, the vast majority of them want their countries to be better integrated into the global economy. For

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Maria Cattai is the Secretary General of the International Chamber of Commerce.

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them, a global economy means increased flows of information, technology, goods and services, capital, and ideas. In short, they are not critical of globalization but of the ability for them to participate fully in the process. They are critical of the fact they do not always enjoy the necessary market access.

What developing countries want is a more rules-based market economy, not less. The International Chamber of Commerce supports this. Interestingly, country leaders in the industrial world are also critical of the many hidden trade barriers blocking market access. When leaders criticize globalization most of them are in fact criticizing their country's ability to manage a heightened degree of international integration. On the other hand, many developing countries feel that they have opened up a lot—and they have not always received the results they were looking for.

Last, I would like to point out that many of the criticisms of the WTO are misplaced. What the WTO is after is nondiscrimination. Attacking the WTO for environmental issues is misguided. Environmental standards are made by international treaty and should continue to be. Criticizing the WTO about these standards misrepresents the decisions and aims of the WTO.

T. Das: We do not perceive globalization in light of the general criticism leveled against it, except that the benefits of globalization have to spread to all countries. Globalization is a development paradigm of the 21st century that holds new hopes, and we welcome it. The primary objective of India's economic reform is globalization of its economy.

However, globalization must open opportunities for every nation, especially for the developing ones. There has to be fair market access and sufficient access to capital and technologies, so that developing countries can benefit from globalization. In my view, globalization itself is not at fault. The problem is that with the onset of globalization the developed countries have resorted to pro-

tectionist policies and have been denying market access to products from the developing countries. Recently, the protectionist lobbies in the developed (not the developing) countries have been very vocal against globalization. We have seen it in Seattle, Davos and Washington. We in India are for an equitable world economic order, which only globalization can usher in.

A. Arendarski: The prospects of closer involvement of transition economies in global industrial processes hinge on three major factors: the quality of systemic reforms and structural policies; the ability to attract foreign capital; and an open, liberal approach to economic interactions with the external world. The most important requirements for a successful economic transformation are the ability of governments to achieve macroeconomic stabilization before the thin layer of social patience wears off, and to design and implement comprehensive policies with maximum consistency over time. The diverse performances of countries in Central and Eastern Europe are attributable to a combination of each country's pre-transition economic dislocation and its leaders' abilities to implement sound economic policies consistently, rather than solely to the process of globalization.

Successful efforts to catch up with global trends are not feasible without an open, liberal interaction with international markets. For example, participation by Russia and the Newly Independent States in a multilateral trading system such as the WTO would provide greater consistency to their market-oriented reforms. This is supported by the actual experiences of the leading transition economies of Central and Eastern Europe, some of which had been members of GATT and the WTO before the transformation began.

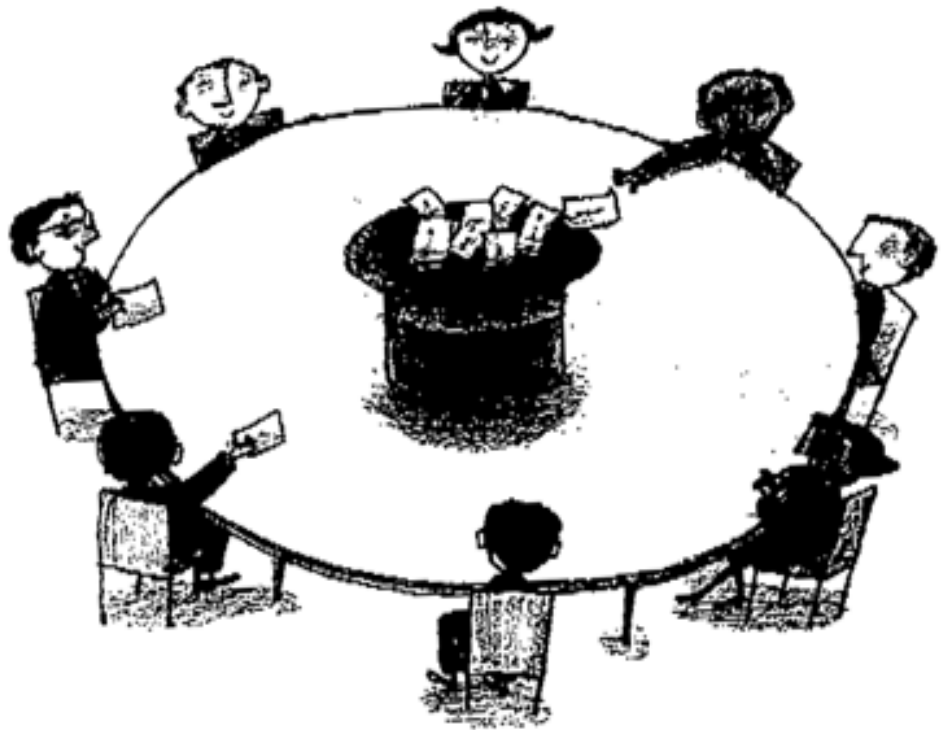
W. Workman: For those political leaders who say that globalization is bad or that trade liberalization is bad, I would ask, "What is the alternative?" For 80 years we tried a different approach to economic development. It

was called socialism and, I think, the world by and large has concluded that the most extreme form of socialism, namely communism, doesn't work. By the same token, I think many countries in the world can legitimately say that they don't like the harsh, rough-and-tumble Anglo-American model of capitalism because it doesn't pay enough attention to legitimate social concerns. This has yielded the so-called "third way" that is somewhere between the rugged capitalism of the UK and the United States and the stifling communism of the former Soviet Union. However, I'm not sure that anyone has successfully carved out a third way."

We think the beauty of capitalism is that it evolves to meet the situation. Because we prize individualism and decisions of individuals, we try to create environments where individuals can make their own decisions, and freely succeed or freely fail. But I think any political or any business leader today who essentially says, "Stop the world of globalization; we want to get off," is not realistic. Why? Because the rest of the world has rightly or wrongly concluded that something akin to the Anglo-American approach—open markets, a rules-based trading system and entrepreneurship in the original sense of unencumbered decision-making by individuals—has by and large been embraced by people all over the world.

There's been a lot of talk about globalization and how it's threatening to a lot of people. But I think everyone needs to understand that the big companies are not the sole beneficiaries of globalization and a more rational, efficient use of their resources. In particular, what is not well understood by politicians is the fact that concurrent with globalization there has been a remarkable growth in small and mid-size companies that participate in the inter-

national economy. Even in the United States, where small companies traditionally have shunned the global market, the number of small companies involved in exporting doubled between 1992 and 1997. And we expect that over the next five years the number will triple. Furthermore, more than 31% of the value of all US exports is generated by small and mid-size enterprises. These statistics are not unique to the US. In the developing world, where the percentages are even higher, most entrepreneurial firms are small. These also



are the ones that are making it in the international marketplace.

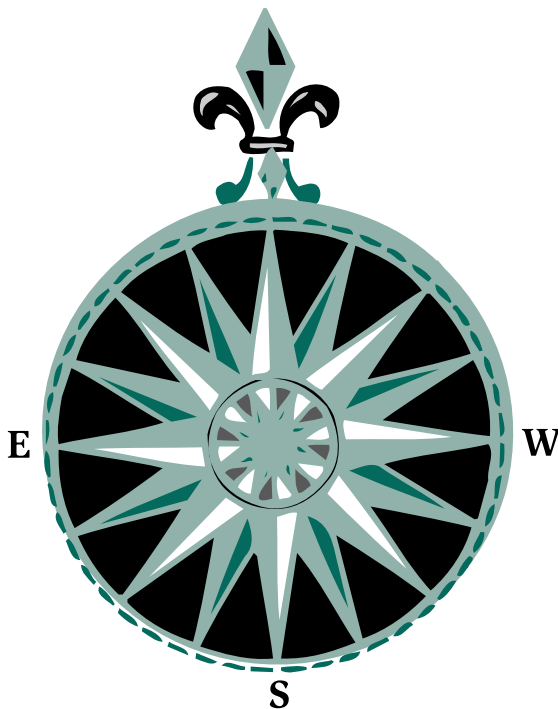
Small businesses also account for the bulk of employment in both developing and industrialized countries. In the United States, we have 19 million enterprises—99.9% of them are small businesses. We are operating right now a full-employment economy. Over the past eight years the net growth in new jobs in the US economy has been created exclusively by our small companies. The big ones have lost employment.

ERT: Is it important to have a rules-based trading system?

J. A. Fernandes: A rules-based system is fundamental to the expansion of

world trade. The rules benefit exporters via security and stability of access. Without rules, there is no incentive for a long term commitment to trade and it gives an enormous leverage to the economic power of the day. For Brazil, the WTO is first priority in its trade strategy.

A. Arendarski: Transparent and rule-based national trade policies are essential for encouraging closer involvement of transition economies with global industrial developments. Such participation must be based on the full acceptance of core standards and rules even



though carefully negotiated temporary waivers and transitional arrangements should not be excluded *a priori*.

M. Cattai: A rules-based system is important because without one trade would be subject to “bully economics,” with potentially disastrous results such as the isolationism of the 1930s.

T. Das: We strongly believe in the need for a rules-based trading system; therefore, we are committed to the success of the WTO.

W. Workman: In the past, commercial disputes were often resolved violently leading to the breakup of empires

and to armed warfare. Following the Second World War, the allies wanted to minimize the possibility of future conflicts. This was the origin of the Bretton Woods institutions, one of which was the GATT. It was believed that if everyone played by the same rules, commercial conflicts would be fewer, and those that occurred could be resolved peacefully.

ERT: Do you consider the existing institutional framework of the WTO to be sufficient to uphold a rules-based trading system?

A. Arendarski: The present WTO system provides an extensive and supportive framework for international commerce. However, the system is still largely dominated by the rules that were essentially created for a smaller, less global and less interactive trading environment. Consequently, the system now needs to adjust to new developments such as regional trading schemes, increasingly dynamic international capital flows, a surging wave of transborder mergers and acquisitions, enormously powerful multinational corporations, electronic commerce, and other modern business practices.

M. Cattai: The WTO has much stronger powers to settle trade disputes than its predecessor, the GATT, and this is why it attracts so much attention—the victim of its own success. There is room for reforms to make it more able to bear the political spotlight, including better ways of consulting developing countries and building consensus among today’s much more diverse membership.

T. Das: Developments in Seattle tell us that the WTO needs to be considerably strengthened and that measures must be adopted to ensure that the organization promotes fair and free trade. The establishment of the WTO is a very significant development in the direction of a fair trading order. However, the attempt to widen its scope to all non-trade issues has to be discouraged.

W. Workman: There are two answers

to that question. First, the WTO operates based on rules developed six to seven years ago at the Uruguay Round. So far it has done a good job in ensuring compliance. For US businesses, the rules have worked well. Grievances have been addressed to the respective dispute panel, and most disputes have been won by the US because we played by the rules—not because we are the US. The rules level the playing field for the big industrialized countries and the small developing nations.

Actually, the rules are probably more important for smaller and lesser developed countries than they are for the big industrial ones because if the rules do not work the latter can rely on their economic clout to further their point of view. But emerging markets, which have not yet achieved that economic power, can rely on the rules. So, for the current trading rules, the WTO does a good job.

The second question is: can the WTO, as an institution, take to the next level not only the developed countries but also the developing ones? After the Seattle Ministerial, I think this is an open question. There are some who would say that because the WTO is a consensus organization, it is very unlikely that agreements will be reached to enact the necessary, revolutionary measures in the world trading system. Those people tend to think that we need a “super” WTO to impose higher degrees of liberalization on the industrialized and WTO member countries. Alternatively, there are others who believe reform from within is possible. They want to create something analogous to the UN Security Council to be the engine driving improvements in the trade regime. To date, there is no consensus on how to reform the WTO.

ERT: *Do you think there will be another WTO Round? Do you see it as important and necessary?*

J. A. Fernandes: Since Seattle, there is a kind of WTO fatigue. It is a kind of lack of leadership. If we take this time to rethink strategies and to analyze the reasons for the failure, the final output may

be positive. It is no good for the world trade system and for the health of the global economy to have no timetable concerning the next steps of the WTO agenda. It is important and necessary to have a new WTO round. But it is crucial to have a balanced agenda. The interests of all players have to be on the table.

M. Cattai: Another WTO round is essential because when countries negotiate within a multilateral framework they are forced to reconcile necessary trade-offs. This is not possible in bilateral talks.

T. Das: India is not opposed to the idea of a new round. But before launching a new round, it is necessary to address the implementation concerns to the best satisfaction of all the member states. It is important that the existing agreements are properly implemented and drawbacks are rectified before the new round is launched. We are happy that, in its meeting in May of this year, the General Council agreed to address the implementation concerns through special sessions.

W. Workman: There is a built-in round that’s been going on since March. It has focused mainly on financial services (including banking and insurance) and agriculture.

There has to be an effort within the WTO configuration for another round. I expect it will be very narrowly defined and focused on the ticking time bomb of trade policy: agricultural subsidies. The new round must take place no later than 2003 because of the so-called “peace clause,” which is an agreement among WTO members not to challenge each other’s agricultural subsidies until that year.

Finding a viable solution to the agriculture subsidies predicament is urgent. It’s become too expensive, even for industrialized countries like those in the European Union (EU) to afford the kind of subsidies to which they are committed by their own programs. If the EU’s common agricultural policy continues at its current rate, it will consume 100% of the budget of the European Commission by the year 2009. So, there is an under-

standing even in the richest countries that WTO members have to deal with agriculture. This is also the most politically difficult issue for countries—both industrialized and developing countries, but particularly for the former.

The traditional way you get countries to agree to rein in their subsidies and to adjust their agricultural policies has been to create a broad range of topics to be negotiated. Thus, a politician can say, “I had to give up the subsidies for our farmers, but I achieved new market openings for our chemical manufacturers, for our pharmaceutical manufacturers, and for our apparel producers.”

While I think there has to be another round because we have to deal with agriculture, it will not be limited to agriculture and will include a couple of other sectors. It won't be nearly as broad as what was proposed by either the US, Japan or the European Union in Seattle. It will be more circumspect.

ERT: *Do you see a way to make the WTO decision-making process more democratic?*

W. Workman: I am amused when people complain about the WTO process being undemocratic. All WTO representatives are appointed by their governmental leaders who are democratically elected. The tag that the WTO is undemocratic is just a red herring.

J. A. Fernandes: Concerning democracy in the WTO, the process of how rules are made starts in every country and depends on a good private-public sector relationship.

M. Cattai: Those who say that the processes of the WTO are not democratic should really stop for a moment and analyze what they are saying. The WTO is made up of governments. Therefore, if you claim that the governments aren't democratic, then you have to do something about your government, don't you? Most of us feel that it's absolutely necessary for business and other groups to discuss their viewpoints with their governments so the latter can adequately and properly represent them during

the negotiations.

The claim that the WTO represents mainly the interests of large governments and big corporations is erroneous. Many of the protesters—some of whom ironically receive government funds—claim that governments are not doing their proper jobs. As a result, they believe it necessary to establish a supra-national organization in order to represent the views of “global democracy.” But in doing so, they are circumventing the nation state and, with it, the mechanisms of representation and accountability. It is worth emphasizing, however, that the process in Seattle was unsuccessful because governments could not agree on an agenda, not because of the protesters.

It is my feeling today, more than ever, that we need strong, effective, efficient, open, non-corrupted governments that can listen to their constituencies—not the other way around. Only strong, effective, efficient governments can make the necessary compromises. It is the duty of all of us to make proper democratic representations to our governments. They're the ones which are making decisions in the General Council. And we should be doing this through processes that encourage civic participation and support our civil structures, not by means which may distort and undermine them.

ERT: *Do you see a way to make the WTO process more transparent, and how important is this issue?*

J. A. Fernandes: During the last years the flow of information from the WTO has increased, and this is an important step toward transparency. Information and trade education are fundamental, and the WTO has to have an active role on these subjects. One of the reasons is that the construction of trade rules is complex and requires the use of qualified human resources from both the private and the public sectors.

Concerning democracy in the WTO, the process of how the rules are made starts in every country and depends on a good private-public sector relation-

ship. The next step concerns the governance of the WTO and the role of its member countries. The critical issue in this area is a decision-making process that leads to a well balanced agenda.

A. Arendarski: Transparency is important so that the smaller and less influential members do not feel excluded from the decision-making process as they did in Seattle. One way of making the process more democratic would be to establish a broad-based agenda versus a sectoral approach favored by some of the leading countries. Poland favors a negotiating exercise to address all legitimate concerns of WTO members.

M. Cattau: This idea that the WTO is some kind of a faceless bureaucracy wherein bureaucrats make decisions secretly is complete and absolute nonsense. No bureaucrat in the WTO decides on trade issues. They are decided completely by the General Council, which is comprised of government representatives who were appointed by the national leaders voted into office in each country.

There are things that need to be done to make sure that the developing countries are part of the process and are gaining from it. These countries' leaders are asking for such measures.

T. Das: Transparency in the functioning of the WTO is of vital importance for the credibility of this body of 138 members. It is one of the basic foundations of the WTO that must not be allowed to be affected. Among the imperatives, there is a need for a transparent, credible process; a clear dispute settlement mechanism; and a more broad-based, consultative system especially when discussing key issues.

W. Workman: There probably should be a mechanism in the WTO where,

prior to key points of deliberation for all of the different processes such as the appeals and dispute mechanisms, there is an opportunity for the public and nongovernmental organizations to present their views to the representatives of the WTO countries.

But just as our grand jury proceedings are secret, so too are the actual deliberations of the WTO. You don't negotiate contracts in public. You don't tell your opponents what your fallback position is. In practical terms, a certain degree of confidentiality must be maintained during the deliberations and the negotiations. However, governments could do a better job of making the decisions of the WTO—and the implications of those decisions—more widely known to the people they affect.

Let's not forget that the WTO has no power to change any laws. The only people that can change the laws are the governments, and they have an option. They can choose not to go along with what the WTO suggests because ultimately this is a membership organization. We've been having a fight with the European Union for seven years over its banana regime. The WTO has twice ruled in our favor and told the Europeans to change it. Given that the Europeans have essentially said they're not going to revise their banana regime, the WTO has allowed the US to impose punitive sanctions on European exports to the US with a dollar amount equivalent to the damage the US has suffered because of the EU's refusal to reform its banana regime. This is the reason why we put 100% tariffs on Italian prosciutto ham coming into the US market; next year we may shift punitive tariffs from prosciutto ham to French brie, just so the EU countries can share the pain. That's as it should be. 🌐