

Reflections on the Global Trading System

Mike Moore

It is truly a great honor to address such a distinguished audience. It is humbling to be among such an intellectually gifted group of people. I have always been interested in ideas, so it is a great privilege to take part, as director-general of the WTO, in the passionate debate about the defining feature of our time: globalization.

I have spent a long time mulling over why we failed to launch a new round in Seattle. Superficially, the answer is obvious: the membership couldn't agree. In the past, the U.S. and Europe were reasonably close together, except on agriculture. This time, the transatlantic divide was as great as the North-South divide. Among other things, they disagreed on agriculture, on labor, on the environment, on investment, on competition, on anti-dumping, and on how to deal with developing countries' problems with implementing some of their Uruguay Round commitments.

But why couldn't they agree? There is a host of reasons. The atmosphere at the WTO was poisoned by the deadlock over the appointment of a director-general. There was not enough time to prepare for the Ministerial. I started as director-general in September, only three months before Seattle. My deputies were appointed only a few weeks before the Ministerial. In Seattle, ministers tried to reach agreement in three days on issues where agreement had eluded ambassadors in Geneva for years. We were too ambitious. We tried to

negotiate an agreement at Seattle, rather than laying the groundwork for the round. There wasn't enough flexibility from all sides. The protests did not help, nor did the timing. The political will was lacking.

Each of these factors contributed to the Seattle outcome. Yet, they too offer a somewhat unsatisfactory answer to what went wrong. I think the big question on everyone's mind is whether there is more to the failure in Seattle than that. Has something changed that makes it unlikely that a new round can be launched reasonably soon?

Several things have certainly changed since the launch of the Uruguay Round. A wide range of controversial new issues, notably labor and the environment, are now on the trade agenda. These issues not only polarize North and South, they also divide the pro-trade coalition in rich countries. Certainly, they don't make launching a round easier. But they are not obviously more difficult to deal with than issues that were new in the Uruguay Round, such as services or intellectual property.

Another change is that the active membership of the multilateral trading system has risen. The WTO has many more members, 137 soon to be 139, and lots of small developing countries that rarely played an active role in negotiations now demand their say. That is their right, and it is generally a good thing. It shows that they recognize the important benefits that multilateral liberalization delivers. Yet, it might also make launching a new round harder. After all, getting 137 discordant voices to sing from the same hymn sheet is harder than arranging a transatlantic duet. Yet, it might not be as great a problem as it seems. Most small developing countries are only interested in a few product lines. Many are happy for others to take the lead for them in areas where they have only a passing interest. So long as all countries are regularly informed and consulted, I don't think that the size of the WTO's active membership is a big obstacle to launching a new round. It can be done. One of the reasons for our success and momentum this year is that we are doing things differently.

A third possible factor is that popular appetite for freer trade, and,

hence, for a new round, has fallen. I simply don't think that's true. The demonstrators in Seattle are entitled to their opinions. But they don't represent public opinion at large. Despite all the negative publicity the WTO has had, 58 percent of Americans think it has a positive impact on the world, compared with only 27 percent who think it has a negative impact, according to a recent poll by the Angus Reid group. And 60 percent of American union members think the U.S. should stay in the WTO, according to a poll by the Association of Women in International Trade. Moreover, public opinion in developing countries has swung massively toward liberalization since the mid-1980s. Just look at what has happened in Mexico, where the PRI lost the presidential election not to an anti-globalist, as nearly happened in 1988, but to a free-marketeer, Vicente Fox.

A fourth factor is the need for leadership and flexibility. Some people blame individuals. Others think the problem is more deepseated. The end of the Cold War has reduced the urgency of taking tough decisions to strengthen the world trading system. Moreover, while the United States is still a hegemonic power in international monetary policy, it no longer is in international trade. The European Union is the United States' equal, and their interests, as well as their view of the interests of the multilateral system, often diverge. Moreover, developing countries, though by no means a unified block, are increasingly assertive too. Brazil, India, Mexico, Egypt, and the ASEAN governments wield great influence in the WTO. China's membership will make things still more complicated.

The WTO system must adapt to a multi-polar world. We have no experience of functioning without a hegemonic power and these may just be teething troubles. But a continuing absence of leadership, combined with the WTO's hallowed tradition of consensus, would make matters tricky for us.

Perhaps the surest way of encouraging the launch of a new round is political pressure from below. In practice, that means business lobbying and coalition building. Here too, though, we have a problem. With the world economy doing so well, and America's spectacularly well, the pressure for opening new markets is not as strong as it was.

Moreover, new technology is, to some extent, substituting for multilateral liberalization in opening new markets. Business also often prefers bilateral deals that segment markets rather than multilateral liberalization. And finally, most of the easy work has been done. The remaining outposts of protectionism in areas such as steel, textiles, and agriculture are the hardest to address.

My conclusion is that launching a new round, while by no means impossible, is certainly going to be difficult. It will not happen by default. It will only happen if sustained pressure on governments produces the political will needed to adopt more flexible positions in sensitive areas. Narrow interests must be examined in the context of pursuing the greater good. The U.S., the EU, and developing countries will have to realize that they have a shared interest in strengthening the WTO system. They certainly ought to do so because liberalized, rules-based trade is good for everyone.

I would like to finish by saying a few words about the state of play of negotiations in Geneva on financial services, an area that is of interest to everyone here.

The services negotiations are off to an encouraging, business-like start, with delegations showing a great deal of commitment. There has been no sign of post-Seattle malaise or bloody-mindedness. Indeed, the lack of controversy about services both before and after Seattle marks an astonishing contrast with the tortured years of discussion before the Uruguay Round, when for a time North-South contention threatened to scuttle the round.

The fact that services is now an uncontroversial subject is powerful evidence of the speed with which economic integration has moved over the past ten years. The GATS is, indeed, a powerful integrating mechanism. No government is obliged to liberalize or make commitments on infrastructural services like finance and telecoms. But the efficiency gains for those countries that do so make the cost of protecting inefficient services very high—because the GATS is about investment and technology transfer, among other things, and market-access commitments are a powerful attraction for foreign-

direct investment. This is why five small developing countries made unilateral commitments on telecoms after the end of the basic telecoms negotiations. They wanted to attract foreign investment in the sector.

On financial services, which always seemed the most sensitive sector for reasons of sovereignty, prudential control, and so on, we have 106 members with commitments, the vast majority of them developing countries—more than in any other sector except tourism. The conclusion of negotiations on the financial—services agreement in December 1997 coincided with the Asian crisis, but this had no impact on the negotiations. Nobody withdrew, or even threatened to withdraw, any of the commitments that had been on the table. In fact, several Asian countries, with some helpful guidance from the United States, actually improved their offers after the crisis had struck. Precipitate liberalization in a badly regulated market can, of course, lead to problems. But our Asian members clearly saw competition as part of the solution not part of the problem.

So far this year, negotiations on market access in specific service sectors have not really started. That will happen next year, when governments have got their negotiating objectives in order. But it is clear that there will be a great deal of interest in the financial sector. Industry in the U.S., Europe, and Japan is already active and there is great scope for the improvement of existing commitments by extending them into additional financial sectors and by removing or reducing the limitations that governments now maintain.