11 From Marrakech to Seattle

In the short span of years from the signing of the WTO agreement at Marrakech in 1994 to the end of the twentieth century, much of the world experienced a period of relative peace and prosperity. The great political event of the 1990s was the unexpected demise of the Soviet Union, bringing with it an end to the polarization of the world into two bitterly opposed camps. The United States emerged from this event as the supreme and undisputed military power and the sole claimant to global hegemony. Barbaric, armed conflicts erupted in the Balkans, in parts of Africa, and in Afghanistan, but they remained regional or local. Only the Persian Gulf War in 1991 was in any sense global; American military power, supported by that of its allies, was used to repel the Iraqi invasion of Kuwait and to protect Gulf oil supplies.

The economic performance of the European Union and the United States–the two main drivers of the world economy–was buoyant throughout most of the 1990s. This was particularly true of the United States. After experiencing a minor recession in 1991, it entered its longest period of uninterrupted economic growth since the end of the Second World War; employment rose strongly, unemployment declined to levels not known since the 1960s, and gains in productivity accelerated in response to recent technological advances. For the developing world as a whole, the pace of economic growth was also generally healthy. China continued to report an exceptional growth rate of around 10 percent per annum, and India improved on its own past record of moderate growth. The performance of the Southeast Asian countries and of Latin America was marred by the effects of the Asian financial crisis that struck the former in 1997 and was echoed in Brazil in 1998. However, the recovery of most of these countries was unexpectedly rapid. Only in formerly dynamic Japan, in sub-

Saharan Africa, and in the countries within the former Soviet Union's sphere of influence did economic performance in the period generally prove disappointing.[1]

Under these global conditions of diminished international tensions and of solid economic growth, the accelerated expansion of world trade and investment, spurred on by the liberalizations negotiated during the Uruguay Round, was hardly surprising. With the almost universal shift in the direction of more market-oriented policies, the trend toward liberalization of trade and capital flows throughout the world, and the shrinkage of time and distance made possible by the new advances in communications and information technology, the world moved to a new level of economic interdependence. The 1990s became known as the decade of globalization. Some went so far as to proclaim a new dawn in international economic relations.

GLOBALIZATION: A TRANSFORMATION IN COMMERCIAL RELATIONS?

Globalization can be viewed from many aspects. Its most general economic characteristic has been the worldwide dissemination of new technology, greatly aided by the spread of education. It has had positive effects in improving the material well-being of masses of human beings. But it has also exposed countries and communities to wrenching social changes and to the mores and ideas of the technologically ascendant nations. There is a wide appreciation that the political and social consequences of the economic change are probably very large, though these are far from clear at the present time.

In the sphere of commercial relations among countries, however, the changes are tangible, are more readily defined, and even have a historical precedent. Many commentators have observed that the world knew a comparable surge of globalization in the pre-1914 years.[2] However, the degree of global interdependence that has been recently attained appears to be quite unparalleled.[3]

Compared with the pre-1914 world, there are some important respects in which interdependence has recently reached new levels. In the production and sale of goods, the world's markets almost surely have become more interwoven than ever before. As a percentage of world output, merchandise exports reached a level of 22.4 percent in 1998, much higher than any number recorded for the pre-1914 world (see table 1, in chap. 1). Moreover, a substantial part of that trade has been conducted by multinational corporations, partly reflecting the remarkable internationalization of production within these corporations themselves.[4]

Perhaps the claim of greater interdependence is shakier for trade in services. Comparison is difficult because the pattern of trade in pre-1914 was almost the reverse of what it is today. In the former period, there were few impediments to the foreign provision of services in the developing world. The foreign ownership of commercial banking, insurance, and large retail enterprises, for instance, was common, and the shipping industry was largely in the hands of a few developed countries. However, restrictions on foreign access to the service industries in the industrially more established countries were numerous; by contrast, in the recent past, such restrictions have been progressively removed.

When it comes to the movement of labor and capital, the pre-1914 era may appear to have been more liberal. There were formally fewer restrictions on the migration of workers, and the era of the gold standard was also notable for the free movement of finance among capital markets. But if equity and loan capital circulated even more freely then than in the 1990s, the opposite is probably true of foreign direct investment.

Like the pattern of trade in services, that of foreign direct investment was radically different in the two periods. In the pre-1914 world, most such investment was directed toward natural resource production, the service industries, and infrastructure, in the developing world or the regions of recent European settlement. In the years after the Second World War, it took a different character, being focused primarily on industrial investment in the industrially more established countries themselves. When the volume of foreign direct investment–originating very largely from Europe, Japan, and the United States–rose to an entirely new level in the 1980s and 1990s, part was still directed toward the developing world. (China, in particular, attracted heavy foreign investment–including substantial investment by businessmen from the Chinese Diaspora). However, what was most striking about this new surge of investment from the industrially more established countries was that it was dominated by their investments in each other's markets. Mainly through mergers and acquisitions, but also through strategic alliances, licensing, and other arrangements, firms in these areas were seeking to extend their scale of operations by entering the markets of the other industrially more established countries (see Lipsey 2000). Such interpenetration among these countries in the ownership of productive assets took the integration of their economies further than had been the case in the pre-1914 era.

Despite widespread impressions to the contrary, governmental policies in the 1990s favored the progress of economic interdependence more than did pre-1914 policies. Some commentators have been inclined to characterize the pre-1914 world as a golden age of free trade and of free movement of labor and capital—buttressed by the gold standard and the Pax Britannica. But as I discussed in chapter 3, before 1914, all of the leading trading nations except Britain were protectionist in some degree, and sizable internal obstacles to foreign trade and investment were generated by industry practices, such as cartels, and by domestic laws and regulations.

Moreover, in the range and diversity of intergovernmental (and nongovernmental) institutions intended to facilitate economic cooperation, the world has changed substantially since before 1914. In the 1990s, many doubts were legitimately expressed about the effectiveness of the international arrangements and institutions designed to protect international monetary and financial stability; financial crises were not less endemic then than in the pre-1914 era, and exchange rate instability was greater. But in the world of commercial relations (especially since the establishment of the WTO), no one questions that these relations are conducted within a more solid institutional framework than before. One indication of the confidence in the regime is that nearly all the countries that had not previously participated in GATT sought membership in the WTO in the 1990s.[5] (By far the largest and most significant of these countries was China.)

But as the fate of the last period of globalization should remind us, there has been no assurance in the more recent past that conflicts of interest among or within nations would always be resolved in favor of multilateral trade cooperation. The most powerful states might still be impatient with a multilateral discipline that abjures them from taking unilateral action to relieve internal, political, or economic stresses, and the weaker states remain fearful of being caught in a set of rules biased against them. In fact, many developing countries began to express such a view not long after the WTO agreement was reached in Marrakech; they felt that the conditions that they had to meet under the agreement were onerous and that its benefits for them were slow to materialize. The powerful countries, who were experiencing a period of relative prosperity free from the stresses generated by adverse economic conditions, largely abided by the new rules in the 1990s; but even so, they were not immune to disruptive behavior. The European Union and the United States engaged in confrontations with each other that sorely tested the WTO discipline. In addition, they viewed the formation of preferential trading areas as an active policy choice, and they showed little restraint in resorting to antidumping measures (though the developing countries collectively became the greatest users of antidumping measures). Further, a new, popular opposition to globalization began to take shape in the industrially more established countries as labor, environmental, and other groups joined to protest perceived contradictions between social aims and trade cooperation.

Still, on the whole, the period following the signing of the WTO agreement was marked by the robustness of the multilateral trade regime. Some of the business outstanding from the Uruguay Round was substantially completed, the new rules and procedures of the WTO were largely upheld, and some new trade initiatives were taken.

COMPLETING UNFINISHED BUSINESS

For numerous negotiators, the major pieces of business still outstanding from the Uruguay Round were the new issues of liberalizing trade in agricultural products and services. On these issues, many negotiators considered that the round had accomplished little more than to break ground. On agriculture, both the member countries of the Cairns Group and the United States had been disappointed by the outcome, and part of the final agreement was that discussions on agricultural trade should be resumed in the year 2000. In the new and complex area of services, countries also agreed that a review of the General Agreement on Trade in Services (GATS) should be initiated in the same year. More immediately, on the three service sectors of financial services, telecommunications, and maritime shipping, about which negotiators had been unable to come to an agreement in the course of the Uruguay Round, it was understood that negotiations should nonetheless be continued and brought to a conclusion.[6]

Financial Services

Financial services comprised a major service sector given particular importance by the industrially more established countries; it included not only the long familiar commercial banking and insurance industries but also the more recently thriving worlds of brokerage houses, investment banks, and asset management firms. In the earlier phases of the Uruguay Round, negotiations focused primarily on relations between the European Community and the United States. Large differences in banking laws at the time made it difficult to find a basis for reciprocal concessions; in particular, in the United States, federal laws segregated the banking and securities businesses, and state laws impeded access to the national market. While the United States wanted access to be accorded on the basis of national treatment, the European Community argued for "mirror-image reciprocity." But the latter later moved toward acceptance of national treatment, and later changes in U.S. banking legislation also brought the range of permissible activities of American banking institutions closer into line with European practice.

In the later stages of negotiations, both during and after the Uruguay Round, the main stumbling block to reaching an agreement was American dissatisfaction with the offers made by developing countries to liberalize access to their financial markets. American financial institutions were particularly eager to gain easier access to the markets of the rapidly industrializing countries of Southeast Asia and to certain Latin American countries.

Still relatively underdeveloped but being gradually liberalized, the financial services sector of these countries offered substantial, long-term business opportunities. For their part, the developing countries were not unaware of the benefits that foreign participation could bring as a vehicle of innovation and in establishing closer links with international capital markets. But at the same time, they wanted domestic firms to be substantial participants in the evolving domestic market.

Thus, the issue was over the pace at which markets should be opened up to foreign participation (see Cornford 1997). The United States pressed for more liberalization than was initially offered by the developing countries. In the course of the lengthy negotiations on financial services, the United States more than once asserted that it was withdrawing from the multilateral negotiations and resorting to bilateral discussions; in other words, it was not willing to apply the nondiscrimination rule to its own offer of market access. Considerable pressure was brought on the developing countries to make more liberalized offers. For the Southeast Asian countries, the onset of the Asian financial crisis in 1997 heightened their vulnerability to external pressure as they sought to restore the international financial community's confidence in their economies. After the developing countries had tabled enhanced offers, an agreement on financial services was reached in December 1998. In one opinion, the agreement did little more than lock in reforms that countries had already been introducing in the banking sector,[7] though it did result in some liberalization of the insurance and securities sectors in a few developing countries.

Telecommunications

The negotiation of an agreement to liberalize trade in telecommunications services had some similar characteristics. The core of the agreement was the market liberalization agreed between the United States and the European Community (later the European Union), and delaying the conclusion of the negotiations was the dissatisfaction of the United States with the offers of liberalization made by other countries. Until the 1980s, the telecommunications sector in virtually every country of the world either had been run by state-owned monopolies or was tightly regulated by the state. This began to change in the 1980s and 1990s, mainly because technological innovations in telecommunications opened up the possibilities for competing suppliers of the services. The United States was among the first to deregulate, followed closely by a number of Western European countries. But many nations were reluctant to undertake the dismantling of state ownership or control required by deregulation, and their offers to liberalize their trade in telecommunications services were accordingly limited. Canada, for example, held out against foreign majority ownership of telecommunications enterprises operating within the country, on the grounds that it wanted to maintain control of its "information highway."[8] In the end, however, countries made liberalization offers that were not inconsistent with their own domestic pace of deregulation and that were acceptable to their more powerful trading partners.

Maritime Shipping

Negotiations on maritime shipping petered out in 1996 without conclusion, when the United States announced that it would not table an offer of concessions. A principal reason for this was the refusal of the U.S. administration, in the face of opposition from the unionized maritime industry, to ask the U.S. Congress to rescind a law that restricted trade between American ports to American ships.

GREATER RESPECT FOR THE MULTILATERALLY AGREED RULES?

There is no doubt that the negotiators from a great many countries worked hard during the Uruguay Round to improve the prospect that the multilateral rules would be universally respected. One major step took place when their governments agreed to refrain from actions–such as the use of voluntary export restraints–that evaded the rules of the WTO; this clearly narrowed down the possibilities for resorting to trade measures that might seem arbitrary and harmful to others. At the same time, the negotiators introduced improved procedures for the settlement of disputes, in the hope that disagreements about adherence to the rules would no longer be decided unilaterally.

At least in the few years from the establishment of the WTO in 1994 to the end of the twentieth century, the hopes of the negotiators appeared, by and large, to be realized. However, in a world of states that are recurrently infected with "mercantile jealousies" and "national animosities"–to use Adam Smith's phrases (Smith 1937, 463)–and that also differ greatly in their economic power, respect for the multilaterally agreed rules remained a fragile thing. Even in these few, short years, disputes between the two largest trading powers–the European Union and the United States–sorely tested confidence (as I will discuss shortly). Moreover, within the confines of the existing rules, some of which are no more than broad guidelines, there remained large possibilities for unilateral or bilateral actions that, if not resorted to sparingly, could erode confidence in the regime as a whole.

The New Dispute Settlement Machinery and Trade Disputes

In the main, the new dispute settlement machinery worked well; it was respected–for the most part–by the powerful countries, and it accordingly gained the confidence of the smaller and weaker countries. Numerous complaints were received by the WTO Dispute Settlement Body, and consultations between the contending parties were initiated. In some cases, disputes were resolved bilaterally; in others, the WTO was asked to adjudicate. By January 2000, some forty-five dispute panels had been established for this purpose, and the appellate board or dispute panels had presented their findings in twenty-eight cases.[9] Most disputes were over clearly defined issues, on which the appellate board or the dispute panels offered judgments based on a balanced interpretation of the rules. The disputes ranged widely from the application of familiar trade barriers (e.g., quantitative restrictions), through fair-trade issues (e.g., subsidies and antidumping duties), to the new question of intellectual property rights. Only in disputes between the European Union and the United States did compliance with the rulings appear to be seriously in question.

Two disputes between the European Union and the United States took central stage on this score. They concerned the importation of bananas and hormone-fed beef into the European Union, and both disputes dragged on for quite a number of years without satisfactory solutions. In both cases, the actions taken by the European Union, which were the original source of the disputes, were responses to internal, political considerations and were not protectionist in intent; there were no European banana producers, and the European Union's ban on hormone-fed beef applied to domestic, as well as foreign, suppliers. The action on bananas derived from an attempt to protect small-scale banana producers in the Caribbean and elsewhere when a unified import regime was introduced as part of the 1992 Single Market program.[10] The ban on hormone-fed beef was a response to the disquiet among European consumers about chemically or biologically modified foods. However, these actions restricted access to the European Union's market for the banana exports of American multinational corporations and for the beef exports of American farmers. The United States challenged the European Union's actions as against WTO rules, winning rulings in its favor. If trade relations between the European Union and the United States had been less strained, an earlier resolution to the disputes might have been found.[11] But both sides adopted a litigious approach. The European Union contested the rulings. Moreover, it appeared to counter the American action by asking for WTO adjudication on whether certain U.S. legislation, most notably the legislation on foreign sales corporations, was consistent with WTO rules.[12] The United States insisted on full implementation of the rulings in its favor, and it finally went forward with the imposition of punitive, retaliatory duties.

These cases put a strain on the dispute settlement machinery. It was an unfair strain, since a quasi-judicial process was being used as a battleground for the confronting of political differences that could better be resolved through diplomatic conciliation. The danger was that a litigious approach to the resolution of political differences might bring the dispute settlement machinery into disrepute.

The Antidumping Loophole Exploited

Besides failures to resolve disputes, there were two other kinds of trade conduct that carried serious risk for confidence in the multilateral regime. One was the abuse of antidumping legislation for patently protectionist purposes, and the other was the proliferation of bilateral or regional free trade agreements

As I mentioned earlier, during the 1980s and the early 1990s, the United States and the European Community had increasingly resorted to antidumping legislation as a means of providing relief to domestic industries facing intense price competition from imported products. The United States had been particularly insistent during the Uruguay Round that the multilateral rules relating to antidumping practices should not significantly reduce the scope for administrative discretion by national agencies in deciding on complaints about dumping. Since an outcome of the Uruguay Round had been to close down other channels through which relief could be offered, national antidumping legislation assumed a new importance. The number of antidumping measures taken by governments throughout the world steadily increased after the WTO agreement came into effect. There were reportedly 880 antidumping measures in force at the end of 1997 and 1,097 at the end of 1999. About one-third of the measures were taken by the United States, about one-sixth by the European Union. Developing countries also made increasing use of antidumping legislation, perhaps partly as a means of retaliation. India, Mexico, and South Africa, for example, were making quite extensive use of antidumping measures in 1999, together accounting for almost one-quarter of all reported measures in force (see World Trade Organization 2000).

Preferential Trading Areas

As I noted in chapter 10, bilateral and regional trade agreements proliferated in the years before and since the signing of the WTO agreement. By the end of 1999, the WTO Committee on Regional Trade Agreements had seventy-seven regional or bilateral trade agreements before it for review. Other potential agreements, under negotiation or being mooted, were on the agendas of individual governments. As I already stated, these many agreements or proposed agreements were not necessarily inconsistent with the multilateral trade rules. A two-tier system of both multilateral and regional or bilateral agreements was nothing new. What was new was that the major trading nations—especially the

United States and, more recently, Japan—showed a rise in interest in these arrangements; as I discussed in chapter 10, this rise carried the risk that the major trading powers would exploit regional or bilateral trading arrangements to rival each other in the establishment of huge preferential trading areas. Though by no means the sole or even the main reason for these arrangements, it would be difficult to assert that such a motivation was entirely absent. However, rivalry did not break out in the formation of preferential trading areas between the European Union and the United States. One very immediate reason for this was that the Clinton administration's authority to negotiate free trade agreements for the United States lapsed after the congressional approval of NAFTA; in the face of likely congressional opposition, no attempt was made to renew it.

NEW TRADE INITIATIVES AFTER THE MARRAKECH AGREEMENT

After 1994, besides revisiting issues that many saw as not satisfactorily resolved during the Uruguay Round, the members of WTO considered several new initiatives that called for further reductions in tariff or nontariff barriers or that proposed extensions of the existing rules. The new institutional arrangements established by the WTO agreement provided a convenient framework for the discussion and negotiation of such initiatives, since the agreement stipulated that a ministerial conference should be held at least once every two years.

Prior to the Seattle conference of November 1999, when an attempt was made to launch a new round of multilateral trade negotiations, two other ministerial conferences were held, one in Singapore in 1996 and the other in Geneva in 1998. Besides reviewing the operation of the WTO regime, these conferences were the occasions for discussion or negotiation of new initiatives. One major step in trade liberalization, successfully negotiated in 1996, was the Information Technology Agreement, in which countries agreed to move progressively toward the elimination of tariffs on a range of information technology products. Another was the agreement to place a moratorium on the taxation of transactions conducted through the Internet.

Several other proposals were of a more general character, being directed toward eventual modification or extension of the rules of WTO. The WTO agreement itself had established four committees to study matters that members believed to be unresolved. These matters covered the large issues of trade and development, trade and the environment, regional trade agreements, and balance-of-payments restrictions. At the Singapore conference, members also agreed to study some other issues–those concerning the relationship between trade and investment, trade and competition policy, and the transparency of government procurement (all discussed shortly)–which became part of the dialogue about a negotiating agenda that took place at the Seattle conference. A further proposal was made by the United States at the 1996 conference, concerning the relation between trade and labor standards. The decision at the time was that the matter fell within the competence of the International Labor Organization (ILO), not the WTO. But it again became a bone of contention at the Seattle conference, where the United States once more tabled the issue.

CHANGING POPULAR ATTITUDES IN THE INDUSTRIALLY MORE ESTABLISHED COUNTRIES

In the industrially more established countries, the 1990s were remarkable for the surge of popular opposition to the pursuit of more open trade policies or, more broadly, to globalization.[13] The opposition was particularly vocal in the United States, where it became a power to be reckoned with in political decision making: it made for uncertainties in congressional approval of such major policy measures as the formation of NAFTA, the accession of the United States to the new WTO regime, and agreement to the accession of China to the WTO; and it helped to prevent the president from gaining authority to negotiate any new multilateral, regional, or bilateral trade agreements. In the European Union, vocal opposition was perhaps both more diffuse and more specific; some of the opposition to freer trade was focused on the tensions arising from further integration or enlargement of the European Union itself, and some was channeled into such particular concerns as the sale of genetically modified foods or the loss of cultural identity in the audiovisual industry. In both the European Union and the United States, the WTO proved to be an easily identifiable institution against which the expressions of popular opposition to trade policies could be directed, and the street demonstrations in Seattle, Geneva, and elsewhere assured the protesters of exceptional worldwide publicity.

The opposition was a very diverse coalition of groups representing different interests or social concerns. It included labor unions; environmentalists; advocates of human rights, labor rights, and women's rights; and activists with looser and less definable, anticapitalist or even anarchist agendas. For some, the motivation was the long familiar—and legitimate—fear that more open trade led to the loss of employment or the depression of wages in their particular industries. Sharing their sense of insecurity were many ordinary citizens who, though not directly threatened with job or income losses, were also well aware of the social dislocations caused by rapid economic and technological change.

The public argument put forward by the unions, however, turned mainly around labor standards in other countries, particularly in developing countries now emerging as exporters of manufactures. The general tenor of their argument was that such competition was unfair if industries in other countries were not conforming to certain minimum labor standards. It was argued, moreover—and with some justification—that more open, global markets tended to depress the wages of unskilled workers in the developed world, since (like immigration) they made unskilled labor less scarce at home (relative to capital and highly skilled workers).

In some respects, the environmentalists argued in a similar fashion. They saw trade as sometimes undermining the higher environmental standards for which they had fought at home. But they were also expressing more generalized concerns; the expansion in international trade was an overt manifestation of a pace of global economic growth that evoked many valid fears about its adverse effects on the world's natural environment.[14]

There were, in addition, many protesters whose concerns went beyond particular economic or environmental issues. They saw trade policy as one strand in the foreign relations of their nation and believed that these relations should be guided by national, moral values. It was morally offensive, for example, to import products from countries where basic human rights or labor rights were not respected. Thus, they urged that trade policy should be used as a means of advocating or defending these values.

The WTO and Environmental Concerns

Partly in response to the advocacy of environmentalists, the United States, with support from European countries, insisted during the Uruguay Round that the new institutional arrangements for the WTO should include a standing committee on trade and the environment. Since the committee began its work, its main activity has been to explore the relations between the rules of the WTO and the more than two hundred multilateral environmental agreements in existence among governments. Only about twenty of these agreements included trade provisions, and at least by the end of 2000, none of these provisions had become the occasion for any trade dispute within the WTO.[15] This suggests a very large measure of compatibility between environmental measures and WTO rules. Trade disputes of an environmental character arose nonetheless in the WTO in the 1990s, and these disputes demonstrated where the possibilities for conflict existed.

There was never any question that governments were free to pursue whatever environmental policies they chose within their national boundaries; GATT, now the WTO, has long recognized that governments could apply import restrictions or prohibitions to protect environmental standards within their own borders. However, by their nature, some environmental problems cross national boundaries, and the environmental standards adopted at home may be rendered ineffective if these standards are disregarded elsewhere.

Many environmentalists advocated that the WTO should allow the unilateral use of trade measures or sanctions in order to enforce cross-border compliance with domestic environmental standards.[16] In the 1990s, the use of trade restrictions was, in itself, by no means novel; as I just mentioned, about twenty of the existing multilateral environmental agreements included trade provisions. But these were agreements to which countries had committed themselves voluntarily. The unilateral use of trade measures to enforce the compliance of other countries with specified environmental standards, whether they have agreed to these standards or not, would have gone well beyond recent practice, and it raised many objections. Developing countries feared that with their weak bargaining position in the WTO, environmental standards incorporated into the WTO and enforceable through unilateral trade measures would fail to take full and fair account of the poverty from which they are struggling to emerge. Without being less concerned about environmental degradation, poorer countries faced more difficult trade-offs between the betterment of life for human beings and environmental damage than did wealthier countries There was, moreover, the concern that environmental standards could readily be abused for protectionist purposes.

The WTO and Labor Standards

At the 1996 WTO ministerial conference in Singapore, the United States proposed the establishment of a committee, similar to the environmental committee, to study the relation between trade and labor standards. This proposal was fiercely resisted by the developing countries, primarily because they saw it as a first step toward the adoption of rules that would be protectionist in intent. They observed that the international negotiation or surveillance of labor standards had long been and continued to be the business of the International Labor Organization. While the proposal went no further at the conference, it did not go away. It remained at the forefront of American political discussions on trade policy. In 1993, to gain congressional approval of NAFTA, the Clinton administration had negotiated a side agreement with Mexico on labor standards (as well as another on environmental standards), and the U.S. free trade agreement negotiated with Jordan in 2000 included a provision about respect for labor standards.[17] It had become the official position of the Clinton administration that future trade agreements should incorporate a provision relating to respect for "core" labor standards.[18] As will be discussed shortly, this issue assumed importance again at the WTO conference in Seattle.

For those seeking to introduce social standards into the rules of the WTO, the great perceived advantage was that it would become possible to enforce compliance with the standards through the use of trade measures or sanctions. But many others, though also supporting the advocacy of social norms, were highly critical of such a linkage.[19] At the most practical level, the clear-cut definition of social aims in legalistic terms is elusive, and there would inescapably be an element of politically subjective interpretation in any judgment about whether particular countries were meeting specific social standards. The possible misuse of the standards as a cloak for protectionist action could accordingly be large. The most pragmatic objection was that the use of trade sanctions for this kind of purpose has, more often than not, proved ineffective. With a few notable exceptions, the historical record of trade measures or sanctions as a means of persuading individual countries to abide by externally determined standards has been poor. First, there has been the difficulty of ensuring that all other countries collectively enforced the measures or sanctions; otherwise, their effect may simply be to divert trade, not diminish it. Second, unless an offending country has a strong constituency favoring adoption of the standard, its government may do no more than make nominal changes in its practices; may refuse to make any changes at all, out of national resentment against foreign interference; or, if large and powerful enough, may itself successfully use trade measures to undermine the foreign resolve to enforce the measures.[20]

A broader objection stems from the history of the multilateral trade regime itself. From one point of view, this history can be seen as a long endeavor by governments to restrict the freedom that each government has to intervene arbitrarily in its external commercial relations; governments have agreed to let their own trade conduct be governed by an ever widening set of rules that has allowed commercial principles to determine the pattern of trade and investment. Trade measures or sanctions have, by agreement, been used to uphold these rules. But if these measures could be more widely employed for other purposes, at the instigation of individual governments, the discipline so painstakingly built up in trade relations would be eroded. The result, as Chris

Patten has observed, would be a "muddle of objectives and tactics" (Patten 1999, 278). In other words, except in rare circumstances (e.g., the sanctions applied against South Africa because of apartheid), it is preferable to pursue noncommercial aims directly on their own terms, through the many channels that are open for advocacy and moral suasion—not through the use of trade measures.[21]

SEATTLE: "WILL YOU, WON'T YOU, WILL YOU, WON'T YOU, WON'T YOU JOIN THE DANCE?"

Popular demonstrations in the streets of Seattle—organized by a wide coalition of activist groups—briefly propelled the third ministerial conference of the WTO, held in December 1999, to the forefront of the world's attention. What happened among the governmental representatives in the meeting halls, however, was far less dramatic, though almost as confrontational. Led by the United States as the host of the conference, governments put forward diverse sets of proposals for trade liberalization or for the revision of WTO rules, with the aim of constituting the substance of a new round of multilateral trade negotiations. But no consensus on a negotiating agenda could be reached, and the launching of a new round was therefore postponed.

In substantial part, the issues put forward for negotiation were rooted in the Uruguay Round itself. Some were continuations of endeavors made during the round to gain greater market access for exports. Others were proposed revisions or refinements of trade rules adopted during the round but found to be unsatisfactory. Yet others reflected dissatisfaction with the pace of implementation of the new concessions or obligations agreed on during the round. However, some significant new proposals were also made, intended both to improve market access and to extend the rules of WTO to embrace new areas of conduct.

In the continuation of endeavors to enlarge market access, the further liberalization of trade in agriculture and services was at the forefront; the resumption of discussions on these two sectors had indeed been mandated by the Uruguay Round itself. The reduction of barriers to agricultural trade, particularly the elimination of export subsidies, was still high on the list of the United States and of the countries comprising the Cairns Group (though no radical reforms of farm policy had taken place in the European Union, Japan, or elsewhere since the end of the Uruguay Round). In services, both the United States and the European Union sought the expansion of coverage by the General Agreement on Trade in Services to other sectors, as well as the greater liberalization of trade in the sectors already included. The major trading countries also wanted to negotiate tariff reductions on a range of industrial products that were still subject to substantial duties.

In some degree, proposals for the revision of rules agreed during the Uruguay Round were the normal outcome of a rules-based system. The need to elaborate or refine existing rules becomes evident as their use reveals ambiguities that allow differences in interpretation or fail to address circumstances that were unforeseen. One American proposal, for instance, sought to realize greater transparency in the implementation of national rules relating to government procurement. Several countries, including Australia, Canada, and Japan, proposed the establishment of a working group on biotechnology; at heart was the issue of the scientific standards that members–such as the European Union–applied in restricting imports of genetically modified foods on the grounds that they represented a risk to human or plant life. Japan and developing countries, among others, also wanted to revisit the antidumping rules. Despite some revisions during the Uruguay Round, these rules had left countries considerable leeway in interpretation and enforcement of national laws. (This leeway had remained at the insistence of the United States, whose position remained unchanged at Seattle.)

Most developing countries were unenthusiastic about the prospect of another round of trade negotiations. Before coming to Seattle, many already shared a feeling that the results of the Uruguay Round had been unbalanced. They also felt that in the implementation of these results–particularly as regards the liberalization of trade in food and in textiles and apparel, which was so important to them–the industrially more established countries had been delaying action to the latest possible date. In comparison, the developing countries were being pressed to act speedily in redrafting their laws affecting such matters as services, intellectual property, and foreign investment in order to conform them to the new WTO rules. Thus, the developing countries wanted, among other things, to postpone the enforcement of the rules relating to intellectual property and foreign direct investment and to shorten the ten-year time schedule for the removal of restrictions on textile and apparel imports. While the broad response of the industrially more established countries was that agreements already reached could not be reopened, it was understood that "implementation issues" should be part of the agenda.

Not all the proposals made at Seattle were revisitations of issues generated by the Uruguay Round. The United States wanted to broaden the coverage of the Information Technology Agreement that had been signed in 1996, and it also sought to make permanent the internationally agreed moratorium on the taxation of e-commerce transactions. The European Union urged that the formulation of rules on competition policy be included in the negotiating agenda, and it wanted to reopen the negotiation of rules relating to foreign direct investment; on both issues, it had the support of Japan. These were matters that had been raised at the ministerial conference in 1996 and on which the WTO had established committees to study and report.

The relation between trade and competition policy was by no means a new concern in international discussions.[22] There was always a persuasive logic to the argument that agreed reductions in trade barriers could be rendered meaningless if the anticompetitive practices of businesses (or governments) frustrated competition from foreign enterprises. The Havana Charter drafted in 1948 had included a clause relating to restrictive business practices, and numerous other attempts have been made, both internationally (as in the OECD) and bilaterally, to draw up agreed guidelines. The task has proved difficult because of differences among countries in industrial organization, accustomed business practices, and views about what constitutes anticompetitive behavior, and it has been complicated by changes in these views as economists' analyses of business behavior has gained in depth. But the relevance of the problem for trade relations has increased in recent years as trade barriers at the border have fallen and—particularly in trade relations between the European Union and the United States—as huge, cross-border corporate mergers have multiplied. At Seattle, however, the United States expressed skepticism about the possible benefits of introducing competition rules into the WTO, and both the European Union and the United States were concerned that such rules might pose a challenge to their antidumping laws.

On foreign direct investment, the main hope of the European Union at the Seattle conference was to bring the existing WTO Agreement on Trade Related Investment Measures (TRIMS) closer into line with the principles of national treatment and nondiscrimination. These principles were reflected in the Multilateral Agreement on Investment (MAI) that the OECD had recently drafted, but the negotiation of that agreement had been abandoned because some countries had had second thoughts about its intrusive character and because of remarkably effective opposition from trade unions and other antiglobalization groups. Under the circumstances, the United States doubted whether a useful revision of the existing agreement could take place within the WTO.

The United States and the European Union were agreed that the issue of labor standards, as well as that of environmental standards, should be included on the agenda. This seemed an ominous development to the developing countries. It aroused in them fears of the abuse of trade rules (fears discussed earlier in this chapter).[23] Indeed, a speech by President Clinton in Seattle in which he appeared to support the use of trade measures or sanctions to penalize countries not meeting labor standards did much to harden the antagonism of the developing countries toward the negotiations.

In the end, the differences of position both among the industrially more established countries and between them and the developing world could not be bridged. It never became clear to the different parties that a satisfactory basis for reciprocal concessions was being laid, and a resumption of negotiations was left to the next conference in Doha in November 2001.