Cletus Coughlin is a vice president and associate director of research at the Federal Reserve Bank of St. Louis.

# Editor's Introduction

**Cletus C. Coughlin**

National economies became increasingly interdependent during the second half of the twentieth century. Coinciding with this increasing interdependence, and to some degree a result of this development, living standards have advanced substantially. This interdependence has been spurred by technological innovations that have reduced the time and cost of transportation and communication. Consequently, what might be viewed as natural barriers to trade have declined over time. At the same time, governmentally imposed barriers to trade also have declined. For more than five decades, multilateral trade negotiations under the auspices of the General Agreement on Tariffs and Trade (GATT) have been a key, but certainly not the sole, factor in reducing governmentally imposed trade barriers, such as tariffs.

The most recent round of multilateral trade negotiations, the Uruguay Round, was the largest and most complex negotiation in the history of international economics. Begun in September 1986, it lasted more than eight years and involved more than 120 countries. A document of 26,000 pages was needed to list the results. For the first time in GATT history, the round included major agreements on trade in services and on trade-related intellectual property questions. Agreements also were reached on various other topics, such as agricultural trade, textiles, subsidies, technical standards, customs valuation, and anti-dumping. Furthermore, the agreement included a charter for the World Trade Organization (WTO), the successor to GATT, and a new set of dispute-settlement procedures. Both the WTO and the dispute-settlement procedures were designed to help implement the rules agreed upon during the Uruguay Round as well as preceding rounds.

Subsequent to the conclusion of the Uruguay Round negotiations, the WTO has pursued negotiations in a number of areas and has reached agreements dealing with information technology products, basic telecommunications services, and financial services. In other areas, such as maritime services, progress is hard to detect. Despite the noteworthy successes, it became clear that to generate major reductions in trade barriers a new round was needed so that countries could trade off concessions across sectors and issues.

The six papers and six commentaries presented at the twenty-fourth annual economic policy conference of the Federal Reserve Bank of St. Louis, *Multilateral Trade Negotiations: Issues for the Millennium Round*, identify and discuss many of the issues that will likely form the basis for the next (admittedly uncertain as of early 2000) round of multilateral negotiations. The conference was organized into four sessions — a general overview, trade issues in specific sectors, an empirical analysis of potential gains, and potential issues that would broaden the WTO's agenda.

## GENERAL OVERVIEW

Jeffrey Schott presented the first paper, an overview of a potential new round of negotiations. His paper identified the reasons for a new round, which items to include on the agenda, how developed and developing countries might expect to benefit, and how the negotiations should proceed.

Schott highlighted several reasons for a new round. First, the talks would tend to ward off growing protectionist pressures in the United States and Europe against increased imports from emerging markets. Second, the talks would provide public support for the WTO and an open trading system, both of which have been subjected to increasing criticism in recent years. Third, the WTO's dispute-settlement system has problems that need correcting. Fourth, more generally, the WTO needs to correct defects regarding its management structure, its linkages with other international organizations, and the transparency of its operations. Fifth, to be successful in its mandated negotiations involving agriculture and services, the WTO must enlarge the negotiations in terms of issues to allow countries to trade off concessions across sectors and issues. Finally, Schott stresses that negotiations are necessary to address resource shortages that are hampering the WTO from fulfilling its expanded responsibilities.

Turning to the agenda, Schott separates the issues between the existing mandates and those that would broaden the WTO's agenda. Agriculture, services, tariffs, and anti-dumping issues fall in the former, while investment, competition policy, the environment, labor standards, and electronic commerce fall in the latter. For each of these major issues, Schott identifies the basic challenges to reaching an agreement.

One of the biggest challenges to reaching agreements is the fact that U.S. leadership has been hampered by sharp divisions within and between U.S. political parties regarding the issues and objectives that should be given priority. Schott identifies the economic and political interests that could be served by a successful round; however, serious doubts exist as to whether the United States is willing to provide concessions in terms of reducing peak tariffs in textiles and clothing, reducing agricultural protection, and constraining anti-dumping duties. Schott also notes that developing countries are not of one mind in terms of their positions on the issues. Nonetheless, they have much to gain from the strengthening of the rules-based multilateral trading system and liberalization in many sectors, including textiles and clothing, agriculture, and services.

Schott concludes his overview by discussing ways to facilitate the negotiations. Rather than long, drawn-out negotiations, Schott proposes continuous negotiations that every few years would generate a package of trade agreements as part of a "round-up." Admittedly, such negotiations would be complicated because they would encompass a broad range of issues and require trade-offs among many countries on many issues.

In his comments on Jeff Schott's paper, T.N. Srinivasan expresses skepticism about nearly all the reasons justifying a new round. One that he does find to be strong, however, is that a new and comprehensive round will promote liberalization of trade barriers by allowing countries to trade off concessions across sectors and issues. With respect to the agenda, Srinivasan argues that agriculture should be brought under the WTO and shares Schott's pessimism about agreeing on a meaningful agenda for the liberalization of services trade. On tariffs, the negotiations should address tariff peaks, as well as tariff escalation. Concerning anti-dumping actions, Srinivasan views them as a virus that should be made WTO-illegal. Going beyond the preceding basic issues, Srinivasan would like to see that: environmental issues be taken up outside of the WTO, the WTO continue to oppose a social clause, no approval be given to extending the scope of the current investment issues beyond the Trade-Related Investment Measures (TRIMs) Agreement, and competition policy be used to promote free competition. Finally, the dispute-settlement system has defects, especially from the perspective of developing countries, which should be remedied. Srinivasan closes by discussing the concerns of developing countries. Admittedly, they could reap substantial gains from liberalization; however, they must be persuaded that the developed countries will fulfill their Uruguay Round commitments before entering a new round.

## TRADE ISSUES IN SPECIFIC SECTORS

New negotiations on both services and agriculture will be launched this year. Bernard Hoekman and Timothy Josling provided in-depth examinations of the trade issues in services and agriculture, respectively.

The Uruguay Round produced a framework in the General Agreement on Trade in Services (GATS) under which liberalization of trade in services could be pursued in future negotiations. Hoekman begins by briefly identifying the rationales for engaging in multilateral negotiations. Governments often are constrained in implementing reforms that would benefit society at large by powerful vested interests. International trade agreements can mobilize groups to support reform. For example, groups that would benefit from better access to export markets support import liberalization. In the case of services, however, Hoekman notes that export interests in services may be weaker than in manufacturing or agriculture because services are harder to trade. Consequently, the support from exporters of real goods that require access to competitively priced and high-quality service inputs might be necessary to spur liberalization in services. International agreements also can provide focal points for welfare-enhancing regulatory reform. Finally, international agreements can enhance the credibility of government policy by providing a mechanism for governments to pre-commit to a reform path.

One of the difficulties in the services negotiations is the lack of information on what policies—at home and abroad—should be focused upon. Hoekman reviews the state of research and concludes that barriers to competition tend to be higher in transportation, finance, and telecommunications than in other services. Since the relatively more-protected services provide basic inputs that are crucial for enterprises to compete internationally, the evidence suggests these services should be the focus of negotiations.

Hoekman then examines recent research results attempting to estimate the gains from liberalization. This limited research suggests that the potential gains may be very large. Unfortunately, the research is so limited that policymakers will still have to rely primarily on rules of thumb to determine negotiating priorities. Basic economics suggests that the focus should be on the contestability of markets and defining activities that are interdependent.

Next, Hoekman turns his attention to options for making the GATS a more relevant instrument of regulatory reform and market access. In light of the limited data on barriers involving services, Hoekman argues that priority should be given to increasing information on existing policies. More likely, however, the focus will be on expanding the coverage of specific commitments—ideally to all services—and improving multilateral rules.

In her comments, Wendy Dobson focuses on how to sustain the momentum to further liberalize trade in services. She stresses the weaknesses in the GATS framework, especially the positive list approach to commitments and the problems with reciprocity. Market access in services is a basic issue in the management of globalization. It involves not only trade instruments and practices, but also policies aimed at foreign direct investment and competition policy. By defining broad principles in these areas that would apply to all goods and services, negotiators could overcome the limitations of GATS and propel liberalization.

Despite the breakdown of talks at the Seattle Ministerial Meeting, Timothy Josling points out that negotiations on agricultural issues will proceed, albeit in a different context than generally anticipated prior to Seattle. Josling notes that these agricultural talks will differ in many respects from prior negotiations because of the transparency stemming from the Uruguay Round Agreement on Agriculture. Specifically, the negotiations will focus on tariff levels, which are easier to negotiate on than non-tariff barriers. In addition, negotiations on reducing export subsidies and domestic support can proceed without revisiting their definitions.

The core agricultural agenda is set and will focus on market access, export competition, and domestic support. The market-access negotiations are crucial; the talks will not be successful unless large reductions in the high levels of agricultural protection are achieved. Given their very high levels, a major question is how to begin a process that will reduce the large difference between protection in agriculture and manufacturing in a reasonable time period. While high tariffs are a distinguishing feature of agricultural protection, the widespread use of export subsidies is the feature of export competition that is the most disruptive factor in the operation of world agricultural markets. Subsidies were constrained, but not eliminated, by the Uruguay Round. The simplest way of reducing export subsidies would be to extend the schedule of reductions agreed to in the Uruguay Round. With respect to domestic support, the key question is whether to strengthen or, alternatively, simply abandon the attempt to constrain domestic policies.

Josling notes that this core agenda is likely to be expanded to include the administration of tariff-rate quotas, the activities of state trading enterprises, and rules covering export taxes and restrictions. Furthermore, negotiators will be faced with a number of other issues that likely will determine the tone and possibly the content of the agricultural negotiations. First, health, safety, and environmental issues will be contentious, especially those involving genetically modified organisms. Clearly, this is a potentially major impediment in the negotiations. Second, trade preferences have a long history in agriculture. This issue could prove vexing to developing countries. In many cases, developing countries benefit from them; however, the preferences often are granted at the expense of other developing countries. Finally, there is the challenge of regional trade agreements. Until recently, regional trade agreements left agriculture out of the free-trade provisions. Because recent agreements have included some aspects of agriculture, conflicts between regional and multilateral agreements are increasing and need to be resolved.

The preceding list does not exhaust the list of agricultural-related issues. Three are particularly noteworthy. First, negotiations about intellectual property have important implications for agriculture because of the spread of biotechnology. Similarly, the increasing importance of foreign investment in agriculture means that investment negotiations, regardless of the forum, have important implications. Finally, because of the activities of state trading enterprises, competition policy negotiations are germane.

Bruce Gardner's comments focus on the economic consequences of a new agreement. Gardner begins with evidence about the Uruguay Round Agriculture Agreement. To date, the effects of this agreement have been slight. This is not surprising because every country was able to set baseline levels high enough that the agreement initially would have little effect. A continuation of reductions during the new negotiations is important for setting in motion large changes. Of course, that is precisely why the negotiations will be very difficult.

A final observation by Gardner revolves around Josling's characterization of "slow but fundamental" changes in agricultural policies in industrial countries. A number of changes occurred during the 1990s to move agriculture toward freer markets; however, the political response to low commodity prices in 1998 and 1999 has changed the picture. Gardner's characterization of policy change is "slow, and possibly transient."

## EMPIRICAL ANALYSIS OF POTENTIAL GAINS

Despite the general agreement that further trade liberalization is likely to prove beneficial, it is difficult to put precise numbers on the potential gains. Modeling and data problems abound for researchers in this area. Thomas Hertel addressed these challenges in his paper.

Prior to analyzing the potential gains from the next round of multilateral negotiations, Hertel needed to make projections to 2005, when the Uruguay Round is due to be fully implemented. From that point, Hertel analyzed an across-the-board elimination of protection in agriculture and a subset of services—business and financial services and construction services—as well as the elimination of tariffs in manufacturing. In addition, he explores liberalization sector-by-sector. When all sectors are liberalized simultaneously, world trade rises by about 20 percent. Three-quarters of this increase is due to manufacturing tariff cuts, while agricultural liberalization accounts for most of the remainder. Trade volumes in services are affected modestly. In terms of welfare gains, however, agricultural liberalization accounts for the largest gain—\$164 billion of the estimated global welfare gain of \$349 billion in 2005. The reduction in manufacturing tariffs contributes \$130 billion to the total gain, with services accounting for the remainder. The fact that the liberalization of transport services was not included is potentially important for the services results.

With respect to the distribution of gains, the majority of the gains from manufacturing tariff cuts accrue to developing countries. Meanwhile, the gains from liberalizing agriculture and services accrue primarily to developed countries. Overall, developing countries capture 42 percent of the global gains, which is roughly double their share of global gross domestic product.

In his comments on Hertel's paper, Geoffrey Reed stresses the important contributions to assessing the potential gains from further liberalization. Complete liberalization is unlikely; however, the estimates provide insights into the possibilities for actual trade liberalization on an overall basis as well as on a sector-by-sector basis.

As suggested above, the modeling aspects of Hertel's work are far from settled. Consequently, Reed discusses modifications that might make the model structure more realistic. The current model is based on the assumptions of perfect competition and constant returns to scale. Two other types of market structure should be modeled—imperfect competition within regional frontiers and multinational enterprises. In addition, Reed suggests that incorporating greater detail about labor markets would enhance models such as the one used by Hertel.

## EXPANDING THE WTO AGENDA

Numerous contentious issues arise when the discussion involving the next round of multilateral negotiations turns to expanding the agenda of the WTO. Time precluded a full airing of all the potential issues; however, the second morning of the conference dealt with some of these controversial issues.

Drusilla Brown's paper focuses on the inclusion of labor standards into the WTO. The United States has pushed for their inclusion in the upcoming round of negotiations to improve compliance with what the United States considers to be fair labor standards. To date, the United States has been unsuccessful and, under current rules, Brown concludes that there is no role for labor standards. Labor standards remain within the purview of the International Labor Organization.

Prior to presenting a formal model, Brown discusses, first, labor standards in the International Labor Organization and, second, dispute resolution in the WTO. The labor-standards discussion is couched in terms of the state of knowledge about multitask and multiprincipal agencies. In the formal model, the WTO is viewed as a multitask agency controlled by multiple principals. Brown explores the consequences of linking labor standards with trade standards in the WTO. The priorities of member countries are unlikely to coincide with each other or with the WTO. For example, the United States argues for rigorously enforced, high labor standards. On the other hand, developing countries desire minimal standards and enforcement because they fear the standards will provide a cover for protectionism. Meanwhile, the WTO may resist enforcing labor standards because they are not related to their original mission of fostering free trade.

Several conclusions follow from the analysis using the model. First, if the social benefit of punishing labor standards violations is negative, then the penalty imposed on trade violations is underpowered. Second, the penalty for labor standards violations likely is over-powered. Third, if linkage is a possibility, the United States will prefer to integrate both standards within a single agency, while developing countries likely will prefer to partition labor and trade standards into separate agencies.

In his comments, James Harrigan focuses on Brown's two key points. The first is that there is no role for labor standards under current WTO rules. The second is that if the enforcement of labor standards were brought into the WTO, then weaker enforcement of trade rules and a reduction in welfare would be likely results. Harrigan highlights a recent paper showing that changes in labor standards, if they have implications for trade flows, may justify "non-violation" complaints under Article XXIII of the GATT. Even so, practical problems abound with pursuing such an approach. Concerning the second key point, Harrigan suggests an extended model that allows governments to choose their policy instrument under different WTO arrangements is necessary to answer more definitively the questions posed by Brown.

In the conference's final paper, Dave Richardson argues that the inclusion of a targeted set of "market-supportive" new issues offers a promising way to propel the multilateral trade negotiations. Including these issues will broaden the gainers from continued global integration and increase the effectiveness of the market system. Thus, both market enthusiasts and society "win."

Selected competition, technology, and labor policies are identified as having the most promise for fulfilling the high standards that Richardson sets. The subset of competition policies includes universal commitment to baseline disciplines concerning cartels, mergers, and anti-competitive behavior. The subset of technology policies includes distribution-oriented refinements in the WTO's intellectual property and trade-related investment agreements. The subset of labor policies includes worker agency services, specifically freedom for agents to bargain collectively on behalf of worker associations.

Richardson argues that multilateral agreements on these policies are likely to alleviate market shortcomings as well as enfranchise small businesses, technology users, and workers around the world as constituents of the global market system. Furthermore, he argues that now is the time to begin this experimentation within the WTO.

In his comments, Keith Maskus stresses that Richardson's paper deals with an issue crucial to the success of the WTO. The demonstrations in Seattle revealed vividly the numerous pressures faced by the WTO from those concerned about various issues, including the environment, labor rights, and the impact of technological change and globalization. The question is whether these pressures can be accommodated in a way that still allows the WTO to be effective.

Richardson's criterion for permitting "social" issues is that the associated regulations must be market-supportive. This means that the regulations must, first, promote the contestability of some missing or monopolized market and, second, be directly related to trade. Maskus finds this basic principle satisfactory, but he would like to see "more meat on his skeleton." For example, he would like to see formal models exploring whether the issues that Richardson identifies really meet the basic principle as well as more details about the proposed policies. Maskus closes by posing a number of questions, such as whether Richardson's specific proposals are sufficient to propel multilateral negotiations forward and to what extent the new procedures might inadvertently produce trade abuses. These questions likely will force the author and others to scrutinize this proposal further.

Shortly after the conclusion of our conference, trade ministers from 135 member countries met in Seattle to launch a new round of negotiations. The goal of launching a new round, which clearly was not shared by all those who converged upon Seattle, was not achieved. Despite anti-WTO protesters playing a visible role in the chaos surrounding the meeting, Jeffrey Schott argued that the major differences among developed countries and between developed and developing countries over the agenda, discussed extensively during our conference, prevented the initiation of a new round. What the future holds for multilateral trade negotiations is unclear; however, it is safe to say that trade officials and other political leaders have much work to do both at home and abroad to overcome the political resistance to trade reforms so that a new round is, at least, begun.

The success of a conference depends on the cooperative efforts of many people. I would like to thank the authors and discussants for their substantial contributions of intellectual capital and time. The fact that this volume was completed in a timely fashion is but one example of their professionalism and commitment to the conference. I also would like to thank Beverly Benham for her efforts, much of it behind the scenes, to ensure that communications and logistics were handled well. Finally, I would like to thank Alice Dames and Ling Wang for making my editorial responsibility as painless as possible.

Please note: Generally speaking, articles published in the *Review* are not copyrighted; however, in this volume, the articles by Schott and Richardson are copyrighted by the Institute for International Economics. For reprint requests, please contact the Institute for International Economics directly.