

Launching a New Round at the WTO

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With the economy going global, information technology developing at a rapid pace, and the scope of corporate activities extending beyond national borders, the nature of markets is undergoing radical change. It is possible to take many different views of these developments, but no one disputes the actual facts about what is happening. Domestic reform and the establishment of attractive business environments, as well as the liberalization of trade across national borders, constitute the quickest routes to economic development.

If Japan is to shake off its economic doldrums and achieve sustained development in the 21st century, we will have to restructure the economy to adapt it to the global economy of the 21st century. But before that can happen, the international economic system itself will have to be reformed. This applies just as much to other countries as to Japan. A new round of global trade talks at the World Trade Organization (WTO) is certainly one of the most important elements needed in order to establish the foundation for this type of economic development.

Seattle and the Post-Seattle Situation

As everyone knows, however, the new round at the WTO has gotten off to a very rocky start.

The Third WTO Ministerial Conference was held in Seattle from Nov. 30 to Dec. 3, 1999. The main focuses of the Seattle Ministerial were: (1) the launching of a new round of global trade talks to succeed the previous Uruguay Round; and (2) an attempt to decide upon the scope and method of the new round of negotiations. But, as the media so sensationally reported, authorities had to call out the National Guard to quell huge demonstrations. In the meantime, talks at the Ministerial were inconclusive. A new round at the

WTO was not launched, and the proceedings were concluded without the release of any ministerial declaration.

The results of the Seattle Ministerial left the WTO with a number of issues to mull over and lessons to be learned. First, serious measures must be taken to address the problems of the world's developing nations. The existence of the WTO is actually very beneficial to developing nations. In addition to serving as a venue for negotiations, it also provides a system for the rule of law through various rules. A multilateral venue like the WTO gives developing nations an opportunity to get their message out to the rest of the world, and the rule of law liberates developing nations from the unilateral measures of the major powers. Yet in spite of this, developing nations are dissatisfied with the WTO. They are finding it difficult to implement the terms of WTO agreements, and feel that they obtain little benefit from the WTO system. In Seattle, there was an explosion of dissatisfaction with the WTO's practice of so-called "green room" sessions, whereby reduced groups of members meet outside formal WTO structures in order to forge agreement on issues of concern to them. Developing countries make up over three-quarters of the WTO membership, and ignoring their dissatisfaction would harm the WTO system itself. (Figure 1)

Second, and seemingly at odds with the previous point, is the importance of cohesion between the WTO's so-called "Quads" (Japan, the European Union [EU], the United States and Canada). The members of the Association of South East Asian Nations, Latin American nations, India and other developing countries are rapidly becoming more powerful within the WTO, and it is impossible to ignore their wishes in running the organization. At the same time, however, the

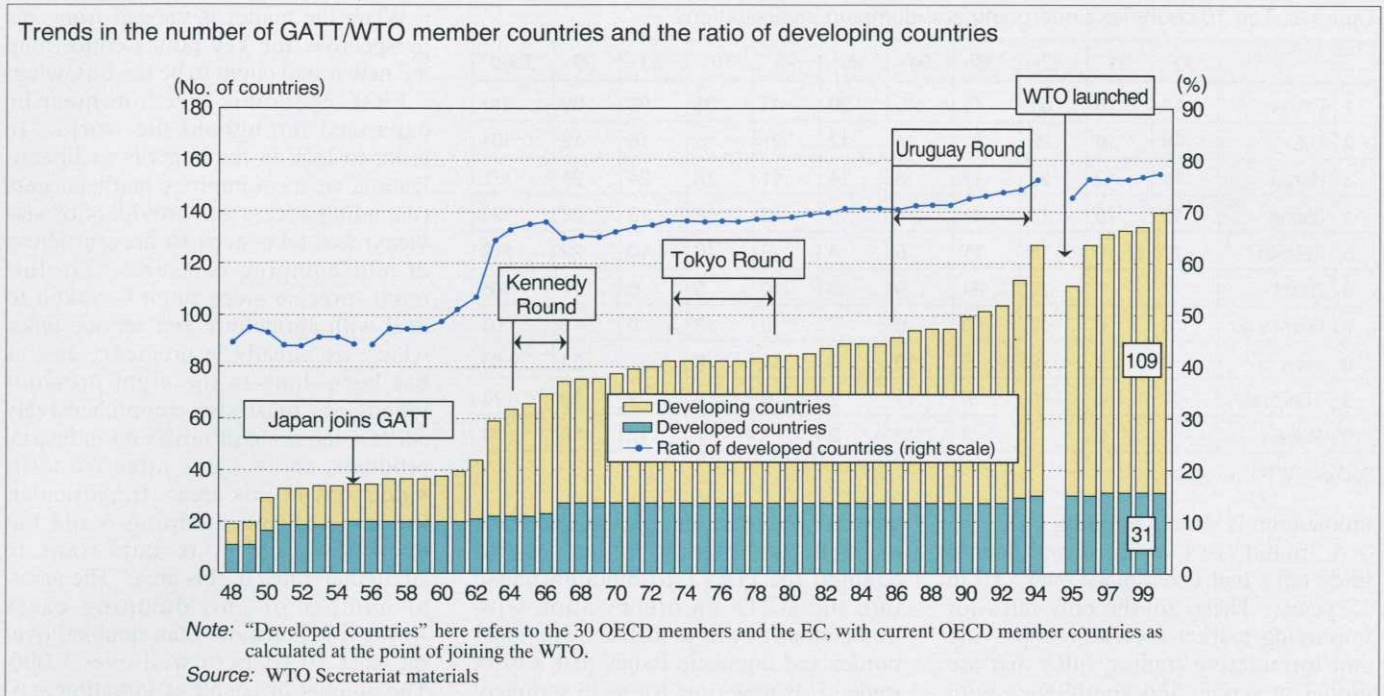
Quads members continue to account for over half of world trade, and without cohesion among them it will be impossible to run the WTO smoothly and initiate a new round of global trade talks.

Third, it will be necessary to come up with an appropriate response to anti-globalism. The WTO, of course, supports globalization and seeks to promote it. Globalization is not a concept, but a reality. As such, it is naturally important to use the WTO system to ensure that the fruits of globalization are maximized and shared in a balanced manner. But globalization has elicited a backlash of opposition from people who are concerned about a number of possible consequences, including global environmental problems, labor and other human rights issues and the loss of cultural diversity. While the WTO cannot be held responsible for solving all of these problems, surely the WTO should address these issues seriously.

The outcome of the Seattle Ministerial has prompted the WTO to take the following four steps as confidence-building measures: (1) efforts to deal with implementation problems (i.e., the difficulties that developing countries have in carrying out WTO agreements); (2) technical assistance (capacity building); (3) aid to the world's least developed countries (LDCs); and (4) internal transparency.

The basic position of those demanding a redress of the implementation problems of developing countries is that the agreements reached during the Uruguay Round were unilaterally disadvantageous to developing countries. These people argue that corrections should be made without any negotiations. This issue has been simmering continually on the back burner ever since the founding of the WTO. We believe, however, that the founding of the WTO as a result of the Uruguay Round has brought into existence a fair

Figure 1



and impartial dispute resolution mechanism, and that this represents a huge boon to developing countries. Nevertheless, it is necessary for the organization to recognize as a fact that most developing countries have problems implementing WTO agreements. The WTO must take precise steps to address this problem in order to prevent a schism in the WTO. The first thing that needs to be done is to carry out capacity building. And second, systemic measures are needed.

With respect to capacity building, there is an awareness that the international undertakings thus far have been heavily weighted toward only the LDCs, and the burden shouldered by aid recipients is very heavy. In recognition of this fact, Japan has proposed the adoption of Strategic Capacity-Building Plans that are fine-tuned to meet the needs of developing economies in the APEC (Asia-Pacific Economic Cooperation) region. Most developed economies and international organizations have accepted this proposal, which has now gone to the implementation phase. The WTO is working to reinvigorate the Integrated

Framework, and Japan is providing financial and other assistance to support this effort.

As for systemic measures, we must classify the various outstanding issues proposed by developing countries into two categories: "those which must be resolved by the time of the Doha Ministerial" and "those which must be negotiated in the new round," and, in the first place, the former must be handled flexibly. In the meantime, it is true that many issues must be solved through negotiations and even though it may not be necessary to make changes exactly as called for by the developing countries, it will nevertheless be important to handle the negotiations with flexibility.

To alleviate the problems of LDCs, which face especially severe difficulties, the Quads members agreed in April 2000 to grant expanded market access to LDCs. As a result of that agreement, Japan has eliminated quotas and duties from 99% of all imports in the industrial sector as of this past April.

As for the issue of transparency, in addition to making internal WTO documents available to the public, the

uproar over the "green room" sessions has triggered an effort to increase the transparency of WTO sessions.

Working for the New Round

Last year went by with the aforementioned undertakings in progress, and with the biggest player in the process – the United States – in the middle of a presidential election campaign. This year, it was decided in February that the 4th WTO Ministerial Conference would take place on Nov. 9-13 in Doha, Qatar.

There have been a number of discussions at different venues since the February decision. In May there was an OECD (Organization for Economic Cooperation and Development) Ministerial Meeting and a Quadrilateral Trade Ministers Meeting. In June, there was the APEC Trade Ministers Meeting in Shanghai, a U.S.-EU Summit, and a Japan-U.S. summit meeting. At these and many other activities attended by both developed and developing countries, participants stressed their commitment to a new round at the WTO. It appears that

Figure 2: Top 10 countries undergoing anti-dumping investigations

| | | 90 | 91 | 92 | 93 | 94 | 95 | 96 | 97 | 98 | 99 | Total |
|----|----------|----|----|----|----|----|----|----|----|----|----|-------|
| 1 | China | 12 | 16 | 31 | 45 | 45 | 20 | 43 | 33 | 26 | 39 | 310 |
| 2 | U.S. | 18 | 16 | 26 | 31 | 14 | 12 | 21 | 15 | 16 | 15 | 184 |
| 3 | Korea | 11 | 12 | 25 | 17 | 8 | 14 | 11 | 15 | 24 | 34 | 171 |
| 4 | Japan | 13 | 18 | 14 | 11 | 7 | 5 | 6 | 12 | 13 | 23 | 122 |
| 5 | Taiwan | 11 | 10 | 15 | 11 | 5 | 4 | 9 | 16 | 10 | 22 | 113 |
| 6 | Brazil | 7 | 7 | 18 | 24 | 9 | 8 | 10 | 5 | 6 | 14 | 108 |
| 7 | Germany | 6 | 8 | 17 | 10 | 8 | 7 | 9 | 13 | 8 | 13 | 99 |
| 8 | India | 8 | 3 | 9 | 5 | 10 | 3 | 11 | 8 | 12 | 14 | 83 |
| 9 | Thailand | 7 | 4 | 10 | 5 | 11 | 7 | 9 | 5 | 2 | 18 | 78 |
| 10 | Russia | 1 | 2 | 7 | 5 | 12 | 2 | 7 | 7 | 12 | 19 | 74 |

Source: WTO materials

momentum is slowly building.

A "round" is a series of multilateral trade talks that takes place every 10 to 15 years. These are the only talks for improving market access or improving and formulating trading rules that are global in scope, and compliance with the agreements that emerge from them is mandatory. The launching of a new round would provide the basis for a 21st-century international trading order. It would also give a preview of how various countries will view the global economic system during the first half of the 21st century. It would thus be a touchstone of the world trade system of the 21st century, and would force us to come forth with our vision for the future. So what is the significance of the new round?

First, there has always been tension between free trade and protectionism. We have to be aware that without strong, conscious support, a system of free trade cannot be maintained. If we are to fend off the pressure of the world's deeply rooted protectionism and adhere to the WTO system, there must be some sort of momentum capable of counteracting protectionism. The new round is what will provide that momentum.

Second, the new round represents an effort by the WTO to address today's new issues and create opportunities for progress. The Uruguay Round provided the GATT (General Agreement on Tariffs and Trade) system with rules to

govern both trade in services and trade in intellectual property rights. It also enabled the GATT to metamorphose into the WTO, an organization with tremendous power to influence national border and domestic issues that impact trade. It is now time for us to seriously assess the merits and demerits of globalization, determine what the WTO is capable of doing in response, and take appropriate action.

Third, the pace of global economic growth has slowed significantly, and the prospects are increasingly unclear. We need to manage the world economy in a confident manner, and it is undeniable that launching a new round would create an image of precisely this sort of confidence.

What must be done to successfully bring about a new round?

First, as has been amply demonstrated at the OECD Ministerial Meeting, the APEC Trade Ministers Meeting, and many other such venues, the agenda of the new round must serve the diverse interests of the many different WTO member nations. In addition to business communities, the agenda must also prove satisfactory to the consumers of each member country if the new round is to be successful. If the agenda is satisfactory only to certain countries or groups, there will be no basis for talks. Accordingly, the agenda must be broad in scope and balanced in its concerns. There is no other way to go about it.

When the matter is viewed from this perspective, the key points concerning the new round ought to be the following.

First, economic freedom must be expanded throughout the world. In order to lock in the benefits of liberalization, we must improve market access (including access for providers of services) and take steps to prevent abuse of anti-dumping measures. On this point, precise steps must be taken to deal with agriculture and service talks, which are already in progress. Just as has been done in the eight previous rounds, we must also comprehensively address the issue of tariffs on industrial products, and achieve effective tariff reductions in this area. In particular, the issue of anti-dumping is old but ever new, and it is important to strengthen rules in this area. The annual number of anti-dumping cases worldwide has more than doubled over the past 10 years to well over 1,000. The number of countries initiating anti-dumping actions has also risen sharply in recent years, from seven to 24. Most are developing countries. These facts strongly suggest that, on the one hand, any country can make use of anti-dumping measures, but any country can also become the victim of anti-dumping abuses. (Figure 2) The strengthening of rules to prevent abuse of anti-dumping measures will benefit all countries.

Second, we need to establish investment rules and competition rules, thereby building up the foundation for an international economic order. Especially with regard to investments, history has shown that direct investments spur economic growth in developing countries, and it is clear that multilateral investment rules would contribute to a further expansion of investment. As for the degree of liberalization, while bilateral investment rules seek greater liberalization, multilateral investment rules provide a stable framework that makes use of the WTO dispute resolution system. Bilateral and multilateral investment rules can be seen as mutually complementary. In light of the failure of the overly ambitious Multilateral Agreement on Investment (MAI), it appears that,

based on transparent and non-discriminatory policies, we should arrange rules to bring about a gradual liberalization that will be acceptable to developing countries.

Third, with today's heightened environmental concerns, it is important to seriously address the issue of "trade and the environment." Free trade reduces the environmental burden of economic activities by ensuring the efficient allocation of resources. From a broad perspective, therefore, free trade and environmental protection can be seen as complementary objectives, but it is also true that totally unsupervised free trade can prevent progress in the area of environmental protection. The WTO needs to respond to critics who charge it with being equivocal on the environment on the premise that it carefully avoid pseudo-protectionism under the name of environmental protection.

Fourth, we must act to facilitate

e-commerce. Smooth development of e-commerce is important, as it promises to bring economic development to virtually every corner of the earth in the 21st century. Keeping this fact in mind, we have been formulating proposals to hold regulation of e-commerce to a minimum, and to establish a competitive environment.

The Multilateral System and Regional Integration

Finally, we would like to say a word about the relationship between the multilateral trading system and regional integration.

There are various things that must be done to ensure the smooth functioning of the global economy. In addition to reducing border trade barriers, it is also important that countries harmonize their domestic systems with those of other countries. Japan holds to the

view that if global trading and investment systems are to be liberalized and harmonized, the most fundamental necessity is to rely primarily on multilateral trading systems, and especially the WTO. At the same time, a multi-level approach involving bilateral and regional trade agreements is also a meaningful part of the picture if we are to keep pace in our rapidly changing times. Such trade agreements can be good precedents for the WTO and complement it, thereby spurring greater liberalization, strengthening rules, and expanding the scope of international trade activities.

Japan has thus far sought to curb such bilateral (regional) trade agreements. We have found, however, that these agreements can be a useful tool in the making of international economic policies on the grounds that: 1) after many rounds we have seen tariffs decline around the world, while worries about the formation of economic blocs have lessened, and 2) it has become clear that bilateral (regional) trade agreements put dynamic facilitating effects on economic activities. We also watched as the North America Free Trade Agreement (NAFTA) accelerated progress in the Uruguay Round. There are thus many examples in which bilateral (regional) trade agreements and the multilateral trading system have actually played complementary roles. (Figure 3)

Japan and Singapore have been engaged in wide-ranging government-to-government negotiations since this past January, and these are scheduled for completion before the end of this year. In addition to the repeal of tariffs, the talks are also focusing on the harmonization of many different economic systems. That is why the talks are called the "Japan-Singapore Economic Partnership Agreement" Japan is also engaged in similar communications with Mexico. In the future, Japan intends to continue pursuing a multi-level strategy that includes both multilateral and regional (bilateral) approaches to the making of the country's international economic policy. 

Figure 3: Impact of FTAs on multilateral trade

| ■ Main reasons why FTAs promote multilateral liberalization | |
|--|--|
| Reduced number of negotiating entities (Summers, 1991; Krugman, 1993) | More progress is made in negotiations among regions than where individual countries participate in multilateral negotiations. |
| Greater negotiating power for small countries (Lawrence, 1996) | Where small countries participate in regional groupings, they boost their negotiating power in terms of pressuring large countries to liberalize (e.g., MERCOSUR and the United States) |
| Progress with domestic industrial adjustment (Wei and Frankel, 1995) | Because the conclusion of FTAs pushes forward domestic industrial adjustment, the scale of declining industries shrinks, reducing political opposition to multilateral trade liberalization in the long term. |
| Promotion of domestic reform brings developing countries into multilateral negotiations (Ethier, 1998) | The conclusion of FTAs between developed countries and developing countries with a negative attitude towards multilateral trade liberalization increases FDI flows into developing countries, advancing domestic reform and liberalization, and, accordingly boosting the incentive for developing countries to take negotiations forward. |
| ■ Main reasons why FTAs hamper multilateral liberalization | |
| Greater price control (Kennan and Riezman, 1990; Krugman, 1991) | Where intra-regional trade is liberalized with extra-regional trade barriers left in place, countries have greater power to control the prices of goods produced within the region, with extra-regional export prices rising and import prices falling. Because this brings additional profit to countries within the regional grouping to the loss of extra-regional countries (terms of trade effect), it obstructs extra-regional liberalization. |
| Protection of domestic industries (Grossman and Helpman, 1995; Krishna, 1998) | FTAs which promote liberalization only among certain countries enable those countries to constrain the competitive pressure placed on domestic import industries to a certain extent while still enjoying the benefits of liberalization, offering potentially greater benefit (to the loss of extra-regional countries) than provided by multilateral trade liberalization. |

Source: Created by METI