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What the Public Should Know about Globalization and the World Trade Organization

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ABSTRACT

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This paper reviews the essentials of economic globalization, as well as the major institution that has recently gotten much of the credit and blame for it, the World Trade Organization (WTO). It first defines globalization, which is just the increasing economic integration of the world economy. It then asks who gains and loses from globalization, drawing primarily upon economic theory to identify its benefits and costs, and who within and among the world's economies get them. That part of the discussion concludes by asking briefly what can and should be done about globalization.

The second half of the paper turns to the WTO, which was the focus of so much negative attention at its Seattle meeting in December 1999. For it too, we first ask what it is, trying to clarify several misperceptions about what it does and why. We then ask what groups gain and lose from the WTO, some simply as a byproduct of its role in facilitating globalization, but others from particular WTO rules and procedures. This takes us to the controversies that raged in Seattle, and we describe those events as they have been described to us by those who were there (we were not). We conclude with our suggestions as to what might be done to change both the WTO itself and the public's perceptions of it.

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I. Introduction

The term "globalization" has only recently become commonplace, and yet trade economists like us have been studying and teaching about it for decades, even centuries. The institution of the World Trade Organization (WTO) has only recently come to exist, and yet legal experts on international trade have been studying and teaching about its predecessor, the GATT, as well, for almost half a century. In both cases, specialists in international trade have argued the benefits, but also acknowledged the costs, of international economic integration and the institutions that facilitate it. Yet until recently ours was a specialty that only a few paid attention to, especially in the United States where the size of domestic markets seemed to render the rest of the world of only secondary importance. Only in the 1990s did America begin to wake up to the significance of world markets and institutions. By the end of the decade, at the Seattle ministerial meeting of the WTO in December 1999, a host of voices were raised against

* We have benefited greatly from conversations with the economic and legal scholars who participated in a meeting about these issues at the Georgetown University Law Center on January 28, 2000. We have also

both. This has turned our academic specialty from obscure to reviled in barely a moment. In this paper we try to set the record straight.

Our purpose is to clarify, for both globalization and the WTO, what they are and what they mean to the world. We do not primarily intend to be advocates of either, and we will acknowledge and explain both the costs and benefits of both. But inevitably, having spent our careers consistently finding the benefits to outweigh the costs, we will conclude the same here. Yes, there are those who lose from world markets and institutions, and some of them are understandably opposed when these intrude into their lives. But overall, we agree with almost all others who have looked at these issues carefully and objectively (and many, admittedly, who have not), that the vast majority of people in the world are ultimately made better off by the spread of global markets and the efforts of the WTO to keep those markets reasonably free. To be sure, there are problems that need to be addressed, and we will mention them too and possible solutions for them. But even in their current imperfect form, the WTO and the open international markets that it has fostered are far better for the world economy than the alternatives that would likely arise if they were disbanded and reversed.

Our paper will be in two parts, the first on globalization and the second on the WTO. In both, we will first define and document the phenomena at issue, then identify the major groups who benefit and those who lose from their effects. Much of this discussion, especially for globalization, will inevitably repeat what trade economists have been saying about trade for two centuries, for it really is true that the issues are not new. However, they have taken some new forms in recent years, and the WTO has likewise

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gotten useful comments from our students and from participants at a conference in Delphi, Greece, May

expanded the institutional scope of its predecessor, the GATT, in ways that also need to be addressed. In particular, events in Seattle raised many issues that had only recently been seen in discussions of international trade, and we will do our best to describe what these were and what actually happened in Seattle. In both parts of the paper, we will conclude with some discussion of what the options are for action, if any, and what we believe should be done. The paper concludes with a final section that tries in much briefer form to answer the question of our title, listing what we believe to be the most important things that the public should know about globalization and the WTO.

II. Globalization

What Is It?

Everybody seems to be writing about globalization these days, and the word surely means somewhat different things to different people. But we will take it to mean the increase in international transactions in markets for goods, services, and some factors of production, plus the growth and expanded scope of many institutions that straddle national borders – including firms, governments, international institutions, and nongovernmental organizations (NGOs). At the most basic level, globalization is the growth of international trade. But it is also the expansion of many other things, including foreign direct investment (FDI), multinational corporations (MNCs), integration of world capital markets and resulting financial capital flows, extraterritorial reach of government policies, attention by NGOs to problems that span the globe, and the constraints on

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2000, where this was presented.

government policies imposed by international institutions in which they are members. All of this has fostered an increasing sense of helplessness among many who feel that their lives and their economic options are being determined not by themselves, or even by their countrymen and their own governments, but by external forces over which they have no control. Residents of small countries may have first experienced this long ago, but in the United States and other large countries, this is a new experience, and it is a disagreeable one for many.

Evidence of globalization is not hard to find, although the surprise for some would be that the current wave of globalization is not the first. In many ways, the world economy reached a peak of globalization just before World War I, when trade and FDI attained what were then unprecedented levels that are still quite remarkable given the technologies then available for transportation and communication. But the current wave of globalization has far surpassed that of a century ago.

Figure 1 shows one indicator of the growth of international trade over the last half century. Measured as an index of the ratio of world exports to world GDP (1990=100), the graph shows that this ratio increased fairly steadily through the early 1970s. It then stalled until the mid-1980s, when its growth resumed, and it grew especially fast in the mid-1990s. By 1998 it was more than three times what it was in 1950.[1]

A longer perspective on the growth of trade, however, is shown in Figure 2, which graphs merchandise exports as a percent of GDP for five selected years from 1890 to 1990 for several major countries and for the world as a whole. For each of these countries and the world, the earlier peak in 1913 is evident, and for Japan and the U.K., exports had still not re-attained the 1913 level as of 1990. This graph also makes clear that there is considerable variation, even among large countries, in the relative importance of international trade.

Increased international capital flows have been most pronounced in portfolio investment, which, like trade, displayed an earlier peak prior to World War I. Figure 3 shows foreign assets as a percent of world GDP for selected years. The pre-WWI levels were not reached again until around 1980, after which these grew threefold by 1995. We do not have exactly comparable information on FDI or the presence of MNCs in the world economy, although various bits of information reported by Crafts (2000) make it clear that both of these were also important in the world economy as of 1914. His data do indicate that the real stock of FDI compared to world GDP rose by 59% from 1960 to 1995. Therefore it is clear that, at least in the second half of the 20th century, both international trade and international capital flows of various kinds were increasing steadily, and this is much of what has come to be called globalization.

Mobility of labor, on the other hand, has not increased significantly, or at least not to anything like its levels at the turn of the 20th century. Figure 4 shows, for the United States only, both the immigration rates and the percentage of foreign born population for selected years from 1870 to 1990. Both were at their highest prior to World War I, and in spite of some increase during the later decades of the century, they are still only a small fraction of what they were then.

What has brought about these changes in the global economy? The two obvious reasons are changes in technology and changes in policy. Improvements in the

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[1] There has also been a significant growth of services trade in recent decades, as documented in the WTO,

technologies of both transportation and communication have had the effect of increasing globalization in all markets, and these changes seem if anything to be accelerating today with the advent of the Internet. Policies, on the other hand, have moved in different directions over the last century, restricting international transactions and mobility after World War I, then (except for immigration policies) opening up after World War II.

Some of these changes can be seen in Figure 5 which reports average tariffs on manufactures for several major European countries and the United States, for selected years. Before World War I, tariffs were fairly high, except in the U.K. which had adopted free trade in the mid-19th century and then raised tariffs somewhat in the early 20th century. They became even higher during the Great Depression of the 1930s, but then were brought down gradually in these developed countries after World War II with the creation of the GATT. Today tariffs are almost negligible in most manufacturing sectors for these countries. Not reported are tariffs in less developed countries (LDCs), which remained high much longer and are still large compared to the Post-Uruguay Round numbers in Figure 5. However LDC tariffs too have been substantially reduced, often unilaterally, starting at various times in the 1980s. And while developed-country tariff reductions have been partially offset by the proliferation of nontariff barriers (NTBs), especially in the 1980s,[2] it seems clear that much of the substantial growth of international trade documented above has been due to reduced policy barriers to trade.[3]

International Trade Statistics.

[2] See Deardorff (1991). It should be noted, however, that most NTBs in the developed countries are scheduled to be eliminated by 2005.

[3] We should qualify this statement as regards trade in agricultural products, which in many cases are subject to relatively high tariffs and other restraints.

Is this, then, all there is to globalization – increased trade and international capital flows brought about by improved technology and reduced policy barriers? Not really. At the same time that all this has been happening, and only partially as a consequence, other aspects of economic life have also become globalized. Governments have become increasingly aware of the economic (and other) policies being used by other countries, both as they affect these same international flows of goods and capital and as they provide examples for their citizens of what policies can accomplish. NGOs have looked increasingly beyond the borders of their own countries, sometimes because the problems they deal with are intrinsically global (the hole in the ozone layer, for example), and sometimes just because they view their cause to be of world-wide importance (human rights). Through FDI, corporations have not only come to operate across national borders, but have also grown to a size that dwarfs some countries, and they have achieved leverage over national governments that may free them from national control. Again, all of these changes had counterparts in the 19^{th} century, but that does not make their importance for today's world any less.

And finally, the designers of the post-war institutions explicitly envisioned a world in which countries would need to cooperate, and sometimes to sacrifice narrow national interests for the greater good. The institutions they designed have been very successful, at least in expanding their own power and importance for the world economy. Like the European Commission regionally and the United Nations in mostly non-economic areas, the World Bank, the IMF, and now perhaps the WTO, seem to have long passed the threshold size beyond which they have been able to continue to grow on their own momentum. Those who view themselves primarily as human beings and as citizens of the world may find these changes gratifying. But others find them threatening. And all are part of globalization.

Whom Does It Help and Whom Does It Hurt?

At its core, then, globalization consists of increased movement of goods and capital across national borders, which means in turn that international markets are becoming more integrated. That is, participants in domestic markets increasingly find themselves either competing with their counterparts in foreign markets, taking advantage of them, or both. This sort of economic integration across countries has been the subject of international trade theory for two centuries, and economists have a good understanding of its effects. In this section, we review the main insights from trade theory on this subject.

Static Effects of Trade

Who gains from trade? The first answer is consumers. That is, everybody in a country stands to gain from trade in their role as consumers of goods and services. For a long list of economic reasons, including comparative advantage, economies of scale, increased competition, and access to a greater variety of products, the average consumer in a country, with an average income, will be better off with trade than without.[4] That is, the average person's income will buy a larger and more desirable bundle of goods and services than they could have afforded without trade, increasing their material standard of

[4] This statement is literally correct only if the word "average" here refers to the simple arithmetic mean of income – that is, total income divided by total population. Given the very skewed distribution of income, this does *not* necessarily mean that the majority of consumers are better off, since in principle the rich could enjoy a disproportionate share of the gains. However, in practice it is likely that the vast majority of

living. This proposition, called the "gains from trade," has been demonstrated theoretically in all sorts of economic models. With only a few exceptions – which economists generally view as unlikely to reverse the broad conclusion in practice – it applies to all countries as they open to trade, compared to not trading at all. The argument extends to further degrees of openness as well as other kinds of openness, such as the free international movement of capital. Thus, the fundamental basis for favoring trade and globalization is that it increases the average person's standard of living.

But this benefit applies to the average person, identified by taking the entire income of the country and dividing it equally across everybody. Since income is not in fact so equally distributed, will trade nonetheless unambiguously benefit everybody? Not necessarily, and, indeed, probably not. One of the other fundamental results of trade theory, the Stolper-Samuelson Theorem, tells us that in a particular model of international trade one group will surely be hurt by trade. Stolper and Samuelson (1941) (SS) identified the winners and losers from trade in terms of the factors of production, such as labor and capital, from which they derive their incomes. Owners of abundant factors, they showed, tend to gain more than average from trade, while owners of scarce factors tend to lose. The latter do not just gain less than average; they are actually made unambiguously worse off by trade, within the constraint of the particular model that SS built. More general models allowing for additional sources of gain from trade weaken this result, suggesting that even the owners of scarce factors may well gain from trade, in which case the SS result says only that these owners gain less than average. But the possibility remains that they will actually lose.

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consumers do gain from trade, the losers being only the small minority whose incomes fall

So trade theory tells us that, indeed, there may be losers as well as gainers from trade and globalization, and that a particularly likely group of losers is the owners of a country's scarce factors. Who are they? In the United States, where the abundance of capital, education, and land make it the richest country in the world, the scarce factor is clearly labor. Not that we do not have a huge labor force – we do. But we have even more of everything else, relative to the size of that labor force. In this relative sense, we are especially scarce in those workers without a great deal of education that we will simply call labor. Therefore, trade theory tells us that the group most likely to lose from globalization in the United States, or at best to gain less than everyone else, is labor. This is hardly a surprise. Growing opposition to globalization by organized labor in the United States makes it clear that they are well aware of this. The surprise may be that economists, who tend to favor trade, would agree. But we do.

It follows from this, too, that trade in advanced countries is likely to increase income inequality there. Because labor almost by definition has lower income than those with income from other sources, and because trade lowers at least the relative wage of labor, it tends to make the poor poorer compared to those who are better off. Leaving aside the legitimate question of whether an increased relative wage for some other factors, such as the return to education, may actually increase the opportunity to escape poverty by becoming skilled, we can therefore expect in the short run at least that globalization will increase inequality in rich countries like the United States.

Why, then, do we claim that there are gains from trade? Because we are confident both from theory and experience that those who gain from trade gain even more than

disproportionately due to direct competition with imports.

labor loses, enough so that a well designed policy could potentially compensate them leaving everyone better off. And in the long run, with some mobility across groups in the population and with some government programs that permit the population as a whole to share in the country's income, most people can expect to be better off with trade than without.[5]

The theory also applies to LDCs, but there the scarce factor is different. Because they are poor, LDCs are the mirror image of the United States, with labor abundant and most other factors scarce, especially capital and education. In these countries, it is the elite, who happen to own most of the wealth prior to trade, who get their support from scarce factors, and it is therefore they who will lose from trade, according to SS. Labor in LDCs will gain. Since labor in LDCs is far poorer than labor in developed countries (as a reflection of their abundance and the latter's scarcity), globalization can be expected on this account to reduce income inequality worldwide, even while it may increase it within the rich countries.

Are there other gainers and losers from trade, besides the owners of abundant and scarce factors respectively? Yes, and many of them are even more obvious. As a result of trade, some industries within a country will expand and others contract, largely in response to patterns of comparative advantage. Many people are invested in "industry specific" capital, human and/or physical, in particular industries – skills and equipment that are useful only within that industry. When an industry expands, the need for these

[5] Also in the long run, economic well-being depends most importantly on how rapidly a country is able to grow – that is, to expand its productive capacity through capital accumulation and technological progress. Here the role of trade is less well understood theoretically, but abundant empirical evidence from the last several decades indicates strongly that countries have grown more rapidly with trade than without. See below.

specialized inputs expands as well, and they become more valuable. Their owners therefore gain. But the flip side is that when industries contract, the owners of specific factors find their skills or their property obsolete, and they may lose considerably. Since globalization inevitably means that some industries contract, it also means that a possibly large group of people find the basis for their livelihoods destroyed. These are serious costs that public policy can usually only partially acknowledge. For many, these costs will continue for a period of months or even years as they relocate, retrain, reinvest, and otherwise readjust. Others, especially those later in life, may never recover. Trade theory does not in any way dismiss these costs as unimportant or even as smaller than other gains. Economists therefore usually argue that movements toward freer trade should be somewhat gradual, so that these adjustment costs can at least to some extent be accommodated within the normal ups and downs of markets.[6]

Nonetheless owners of specific factors in industries that will contract due to trade constitute a major source of concern in response to globalization. Owners and workers in textile and apparel firms in developed countries have experienced declining fortunes for several decades as globalization has proceeded, and those who remain in these industries will continue to do so.[7] In India, where early efforts at development unwisely fostered many very capital-intensive investments, those who own these old steel mills and other large establishments, as well as their employees, will suffer from India's current liberalization. In Mexico, among the biggest losers from the NAFTA have been small

[6] In Brown, Deardorff and Stern (1992), for example, we estimated the employment reallocation effects of the NAFTA for the United States, and found them to be much smaller than the normal turnover within U.S. industries in one year.

[7] Of course, many others have long since left these industries, and they, or their descendents, are now working comfortably in other sectors of the economy.

farmers of corn (maize) in their hopeless competition with the more productive farms of the Midwest United States. More generally and in any country, workers in contracting industries may be hurt by trade, even if the market for their services is robust elsewhere, especially if they find it hard to move to the locations of new jobs. Also generally, workers with even small amounts of industry-specific skill in contracting sectors will find adjustment difficult if they are much older than new entrants to the labor market, since they will find it hard to retrain.[8] These are only a few of the many groups throughout the world who have reason to be leery of globalization because of their dependence on industry-specific factors.

It is not only whole industries that expand and contract due to trade. Within an industry, particular firms will win and lose in competition with each other, and firms that have prospered in a protected domestic market may not be the same ones that do well in a globalized economy. Anticipating the identities of these winners and losers in advance may be impossible, but once the process is underway, we can expect particular firms to try to speed it up or slow it down, depending on how well they are dealing with its competitive pressures.

Dynamic Effects of Trade

This discussion of gains and losses by particular firms and by specific factors is appropriate primarily to the short run, for in the longer run, individuals and factor owners may be able to relocate, retrain, and otherwise readjust to changing circumstances. Gains and losses to abundant and scarce factors, on the other hand, are longer lasting, continuing even after factors have moved from failing firms and contracting industries

[8] The point is not that older workers are less able to learn. Rather, the cost of training, including foregone

into new and expanding ones. However, this is not the end of the story. Over even longer time horizons, the total amount of a country's factors changes with economic growth. It is reasonable to ask, then, who gains and loses from trade in the *very* long run, as sizes of countries and their rates of economic growth may change.

An easy answer to who gains and loses from trade in the very long run is "Not us." Keynes said that in the long run we are all dead, and while for most of us that remains to be seen, he was probably right. Thus whoever may be the long run gainers and losers from international trade, they will be subsequent generations, not ourselves. That makes it somewhat harder to predict how they will fare, since we know less about them than we do about ourselves. In a dynamic economy like the United States especially, the owners of tomorrow's capital, land, and human capital may not be the descendents of those who own these factors today. Therefore, even without economic growth, our best bet for helping future generations whose individual characteristics we do not know is simply to maximize the total income that will be available to all of them. We know that globalization does exactly that, and therefore we may have some confidence that "everyone" in future generations will benefit from it.

Allowing for economic growth, this conclusion becomes that much more likely, although the theoretical basis for it is much less certain than the aggregate gains from trade in the shorter run. Economists do not in fact have a solid theoretical grasp of how trade affects economic growth, perhaps because economic growth itself is not as well understood as the economics of static markets. Instead, there exist quite a variety of models of growth, and an even greater variety of models of how international trade may

earnings, is harder to recover in the smaller number of years that they still have to work.

interact with growth. Some of these models predict only that trade permits a country to grow larger than it otherwise would, while other models suggest that it may permit countries to grow faster indefinitely. But there are also models where trade may be bad for economic growth.

The actual effects of trade on growth are therefore to be learned only empirically. Here we have an accumulation of ever-stronger evidence that trade and globalization are good for growth. For the last half-century, most countries that have tried to grow while minimizing their international trade have failed to do so, while those that have opened their markets have done much better. As a few successful countries – the "four tigers" of Hong Kong, Singapore, South Korea, and Taiwan especially – demonstrated the benefits of trade for growth, other countries changed their policies towards greater trade and many of them began to grow as well. This process has not been without setbacks, but overall few economists today would doubt that open markets are beneficial for economic growth, even if we do not entirely know why.

If that is true, then there is an even better case for believing that, in the very long run, entire populations will gain from globalization. Those who turn out to be adversely affected by trade in the short run (owners of scarce factors, as we have said), may lose relative to others. But because they will have a smaller slice of a larger pie, they may well be absolutely better off. And that will surely be true if trade permits countries to grow not just to a larger size, but to attain higher rates of ongoing growth indefinitely. Therefore, we may feel somewhat confident that globalization and trade are beneficial in the very long run for pretty much everybody who will then be alive.

Effects of International Capital Flows

All of our discussion so far refers to the gainers and losers from international trade. To a considerable extent, the gainers and losers from the international flows of capital that are also part of globalization are the same, since capital tends to flow in response to the same market forces as trade. There is, however, the added proviso that those who are internationally mobile tend to do better than those who are not. Dani Rodrik (1997) has stressed that in a globalized economy where some groups are mobile and others are not, those who can move tend to benefit at the expense of those who cannot. As we have seen, in the last half century capital has become much more mobile, while labor has not, and therefore we can expect some additional tendency for labor to lose, and capital to gain, from globalization.[9]

This may be part of the reason for a widely held perception that globalization is largely for the benefit of large corporations, a perception most forcefully argued by Lori Wallach (2000) of the NGO Public Citizen. It is certainly true that large corporations often (but not always) prosper in the international environment, and those small corporations who also prosper tend to become large. To some extent this is a result of their ability to move their operations around the world to wherever they make the most economic sense, and if they do this well, their stockholders gain. Of course, the larger the corporation the more likely is its stock to be widely held, including in the retirement

[9] Obviously, capital benefits most if it is located initially in a capital abundant country and can therefore earn a higher return by moving abroad, but this is just another example of factor abundance at work. The point here is slightly different, though. Mobile capital, even from capital importing countries, stands to benefit from the increased flexibility that mobility permits – owners of capital have options, even if they do not use them – and this is an advantage that immobile labor does not possess. This becomes most important in imperfectly competitive factor markets where the division of profits and rents depends on the negotiating power of the participants. Mobile capital, by threatening to move abroad, can reach a more favorable contract with immobile labor.

funds of workers. Therefore it is worth remembering that the gains that accrue to capital accrue in part to those workers who manage to save during their working years.

Capital mobility has another implication, however, that is quite different and that has little to do with returns to factors of production. Financial capital often tends to take very short-term forms, and it is highly liquid – able to move quickly in and out of a country or a currency in response to speculative expectations. Such movements, which are an aspect of globalization unrelated to trade, generate another class of winners and losers: those who bet correctly and incorrectly on changes in financial markets. Of course, nobody expects to bet incorrectly, and those who knowingly take on these risks need not be pitied if they lose.

More important, however, are other victims of short-term capital flight. When expectations turn against a country or its currency, whether the expectations are justified or not, the capital outflow batters many of those within the country. To the extent that financial intermediaries within a country – banks and sometimes governments –have borrowed abroad to finance asset purchases at home, a capital outflow does not just mean a drying up of domestic credit. Since the outflow also causes the country's currency to depreciate, it raises the values of liabilities compared to assets, and forces borrowers into bankruptcy. The damage then spreads to other domestic markets as bankrupt banks, firms, and governments are forced to curtail spending. Even domestic exporters, who might be expected to prosper from the increased competitiveness provided by their depreciated currency, may find their access to foreign markets undermined by the absence of domestic credit to finance their transactions. Thus capital flight can cause widespread recession within a country, affecting much of the population regardless of their economic position within the country. This, of course, has been seen most recently in the series of economic crises in Asian economies starting with Thailand in 1997, but the phenomenon had been observed before, in Mexico in 1995. All of these countries were, arguably, victims of globalization when these crises hit, although they were clear beneficiaries of globalization both before and, thankfully, after, as most have recovered more rapidly than anyone expected. It was the sudden withdrawal of financial capital from these countries, both by foreign investors and by domestic residents, that precipitated their crises. But it was also in part their access to global capital that had allowed them to prosper in the first place.

Other Effects of Globalization

This completes our list of those who gain and lose most clearly from globalization. But the discussion would be incomplete without mentioning several additional benefits and costs, even though these may not be associated with any particular groups who feel their effects.

On the side of benefits, many today would point to lower inflation as a positive side effect of globalization. It is certainly true that the United States and other countries are today experiencing much lower inflation than would have been expected based on what we thought caused prices to rise, most obviously the low unemployment rate and associated wage pressures. The reason for this is still being debated, but some argue that we are in a "new economy" for reasons of both technology and globalization, and that in this new economy competition on world markets makes firms less likely to raise prices and grant wage increases, except when justified by productivity. It remains to be seen whether this happy state of affairs will continue, but if it does, and if globalization really is a part of the reason for it, then the combination of a lower inflation rate and the resulting lower sustainable rate of unemployment is a benefit that spreads to almost everyone within the economy.

Another possible benefit of globalization that is even more uncertain than lower inflation is the possibility of an increased rate of technological progress and productivity growth. The slowdown in productivity growth that began in the mid-1970s appears to have reversed itself in the late 1990s, although it is too soon to know whether the change is permanent or even valid. Here too, some would argue that increased international competition has forced firms to innovate more rapidly and to economize on labor in ways that have increased productivity, and that this may be a lasting benefit of globalization. We see even less evidence to support this conclusion than the previous one, but it deserves mention.

Finally, it is clearly the case that globalization has effects on local cultures around the world, but these changes are sometimes admired, sometimes deplored. Increased international trade, travel, and capital flows (especially FDI) have exposed the residents of almost every country to the products and sometimes the customs of others. The United States epitomizes this effect, especially with our wide variety of national cuisines available in restaurants and supermarkets throughout the country. To a smaller extent, and dependent more on migration than on other more prominent aspects of globalization, holidays and customs have penetrated U.S. daily life from around the world, expanding on those brought to the country earlier from Europe.

The same is happening even more in reverse, although many are unhappy to see it. Globalization has meant that U.S. culture (not an oxymoron, it turns out) is spreading throughout the globe through trade, especially U.S. exports of movies, music, and television programs. Young people, especially, around the world are adopting American styles of dress, music, and behavior, much to the dismay of some of their elders and of those who fear the loss of their own cultural traditions. As economists, we are reluctant to condemn the choices freely made by consumers anywhere. But cultures are to a great extent public goods, and fragile ones at that. Globalization may be bringing cultures into conflict in ways that national borders used to prevent, and new policies for protecting them may be needed.

What Should Be Done about Globalization?

We have heard it said that the process of globalization has so much momentum that it cannot be stopped. We disagree. Unforeseen events, and even deliberate policies with unforeseen consequences, could conceivably reverse the process of globalization, just as World War I and later the Great Depression did once before. Much as we might hope for the best, there is little reason to believe that the world is now immune from the sorts of world-wide disruptive events that have wracked it twice before within the last century.[10] If such occur, much will depend on the wisdom and expertise of the world's leaders and their efforts to repair and restore the institutions of the world economy after such a disruption.

[10] Actually, there is one reason for hope, and it is globalization itself. Those who designed the postwar international institutions at Bretton Woods in the 1940s were seeking not just economic prosperity for the world. They hoped that trade and other forms of economic integration would make wars like the one just ending less likely in the future. Of course, the globalization at the beginning of the century had failed to serve that purpose.

It is even conceivable, we think, that that a widespread change in direction of public policy could occur and reverse globalization more gradually. The institutions of the global economy – the World Bank, IMF, and WTO – would be incapacitated if the United States or Europe were to withdraw their support, and considering the controversies surrounding these institutions' roles, this could easily happen. Without them, especially the WTO, the rules that constrain countries from interfering with international transactions for their own ends would not be operative, and the world could descend into a trade war or a series of competitive devaluations and tariff increases, just as it did in the 1930s.

It should be kept in mind that these were *not* irrational acts by uninformed policymakers, acts that we would not repeat today. Instead, like the uncooperative strategies in the Prisoners' Dilemma game of game theory, these were rational individual responses to the situations that countries found themselves in. Without some mechanism for international cooperation to prevent it, the same could easily happen again.

While we believe that the benefits outweigh the costs for international trade in goods and services, as well as for investment in real capital through FDI, we are less convinced that free movements of financial capital are clearly beneficial. The disruption and hardship caused by recent financial crises could perhaps have been avoided through better oversight and regulation of financial markets by national governments and by better decisions on the part of international organizations. But since it is not entirely clear what these improvements would entail or how to achieve them, it does seem that a case can be made for implementing some sorts of restrictions on the international movement of short-term capital. This is not the area of our own expertise, and we are reluctant to take a position on it. We merely note that smart people disagree on this issue, and leave it at that.

Aside from financial capital markets, then, what policies should be pursued with regard to globalization? As we have said, we believe that globalization has been largely a good thing, with the benefits exceeding the costs. Therefore we certainly do not want to see any reversal of direction, or a return to protection. Since most of the costs of globalization are costs of adjustment, analogous costs would arise again if we moved back in the other direction. Indeed, given how far the world has already come toward global and efficient markets, continued liberalization may well be less painful for all concerned than what has come before. In any case, we advocate continuing the process of liberalization of both trade and international direct investment.

Many of the concerns of those who oppose globalization are legitimate, however, and these should not be ignored. Greater efforts need also to be made by national governments and by international institutions to address those concerns, assisting those who lose most from globalization wherever that is possible without undermining the process itself. How this can best be done is uncertain and deserves greater study and perhaps experimentation, but programs of adjustment assistance, wage insurance, and retraining are several that might be considered.

III. The WTO

What Is It?

The World Trade Organization was created in 1995 by agreement among most of the large countries of the world and a large number of small ones. It is the successor to, and incorporates within itself, the GATT – the General Agreement on Tariffs and Trade – which originated as a treaty among western market economies at the end of World War II. Under the GATT and now the WTO, member countries agree to certain rules about the circumstances under which they may increase trade barriers, especially tariffs, the main purpose being to prevent them from using trade policies in ways that harm other countries. The GATT also served as a forum for negotiation to reduce tariffs and remove other trade barriers. Presumably the WTO will serve this purpose as well, although it has not yet. The GATT oversaw eight rounds of increasingly complex multilateral trade negotiations, which are listed in Table 1. These culminated in the Uruguay Round that created the WTO and that reduced average tariffs to the low levels seen above in Figure 5. The WTO also took on a broader range of issues than had been covered in the GATT, including trade in services, tariffication in agriculture, and intellectual property protection.[11]

In some respects, the most important change in the WTO compared to the GATT has been its dispute settlement mechanism (DSM). The GATT included provisions for countries to file complaints against other countries for violating GATT rules. Each complaint was handled by assembling a "panel" of experts who were knowledgeable about the issues involved and about the rules of the GATT. This panel would examine the evidence and issue a report that, if adopted by unanimous agreement of the GATT members, would require the offending party to either change its behavior or be subject to sanctions. However, the requirement of unanimity meant that the offending party itself could block a panel report, in effect giving every member country veto power over

[11] There are many good sources of information about the GATT and WTO. For just one, see Deardorff

findings against it. Under those circumstances, the surprise was that the mechanism ever worked at all, which it did.

The WTO reversed this bias against adoption of panel reports, requiring instead a unanimous decision to block a report, and it therefore made the DSM much more effective than it had been under the GATT. In addition, it included a number of other changes that streamlined the operation of the mechanism and also provided for the possibility of appeals. The intent was to provide a workable enforcement mechanism for WTO rules, and it appears to have worked. The dispute settlement mechanism of the WTO has been used much more frequently than that of the GATT, both by and against a wide range of member countries, as indicated in Table 2. Just as important, large countries (the U.S.) have stopped handling their most important trade complaints outside the GATT, and have instead relied on the DSM for resolution. Since some major cases have yet to be resolved, it remains to be seen whether the DSM will ultimately serve the purpose in all cases, but so far the new system has been remarkably successful.

Inevitably, however, the DSM has not worked to everyone's satisfaction. Although the WTO is intended to prevent countries from deliberately using policies to harm other countries, it also tries to prevent them from doing that inadvertently, as when a policy for one purpose achieves its aim by restricting the options of another country's citizens. A contentious example has been the "shrimp-turtle" case, in which a U.S. law to protect an endangered species of sea turtle from death in the nets of shrimp fishermen tried to accomplish that aim by prohibiting imports of shrimp that had been caught without the use of "turtle exclusion devices" (TEDs). Since it is impossible to tell from

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(1997).

looking at a shrimp how it was caught, the law was implemented by restricting imports of shrimp from certain countries. These countries took the case to the WTO, which decided against the United States. The effect of this decision was to strike down the U.S. law, an intrusion into U.S. sovereignty that many environmentalists and others in the United States have found offensive. This is only one example, and there have been several others.

The potential of the WTO to intrude in national affairs was increased not just by its DSM, but also by the expanded coverage of WTO disciplines. The GATT had always covered trade in most industrial products, but even there it had acquired exceptions for certain sensitive sectors, especially textiles and apparel in the GATT-sanctioned Multi-Fibre Arrangement (MFA) that restricted exports in these sectors from developing countries to developed countries. The GATT also excepted agriculture, almost from the beginning. And it never covered trade in services, which because it typically required a domestic presence by the exporting firm in the importing country, was not even regarded as trade until terminology changed in the 1980s. Thus, although the GATT covered a great many products, its role was nonetheless limited.

The WTO changed all of that, or at least it promises to. The Uruguay Round agreement, which created the WTO, also scheduled the complete elimination of the MFA. However, the deadline for accomplishing that, as well as almost all of the difficult liberalization, was postponed ("backloaded") to the end of a 10-year period. First steps were also taken to encompass agriculture in the GATT, initially by converting existing nontariff barriers to tariffs (tariffication) in order to have a future basis for negotiating them downward. And trade in services was covered in a parallel agreement to the GATT, the General Agreement on Trade in Services (GATS) that intends to do for services what the GATT has done for goods.

In addition to these expansions of WTO authority to categories of trade not effectively covered previously, the WTO also embarked on some new kinds of international discipline. Most prominent and effective is its coverage of intellectual property under its TRIPS (Trade Related Intellectual Property) Agreement. This requires all member countries to adopt and enforce certain minimum standards of intellectual property protection – primarily patents, copyrights, and trademarks. In addition, the WTO includes (as the GATT had before, actually) some small ways that countries are permitted to use trade policies for environmental purposes. However, the one area, much discussed, where the WTO has *not* extended its authority is labor standards and labor rights. Despite many groups in developed countries who would like to use trade policies for this purpose, resistance from the developing world as well as from corporations who employ labor in developing countries has effectively prevented that from even being discussed in GATT and WTO negotiations.

Whom Does It Help and Whom Does It Hurt?

With its expanded role, the WTO can be expected to have complicated effects on a wide variety of groups. But fundamentally it is still, like the GATT, an agent of increased trade, and therefore of much that we discussed above as globalization. The WTO has not, yet, done much to facilitate international capital movements, although it has achieved an agreement on market access in financial services that is likely to lower transactions costs for movements of financial capital. But it has certainly done a great deal to facilitate international trade. To a great extent, then, those who gain and lose from the WTO are the same as those who gain and lose from globalization itself.

Therefore, everything that we said above applies here as well, about gains and losses to abundant and scarce factors, to industry-specific factors, and to factors based on their abilities to move or retrain. In addition, because the WTO aims to liberalize those sectors that were excluded from the GATT – textiles, apparel, agriculture, and services – we can also expect those principles to apply especially strongly to them. Thus, for example, developed country textile workers, who were protected for decades from the liberalization that the GATT was effecting in other sectors, have particular reason to be concerned now, if indeed the MFA will disappear, and developing-country textile workers have corresponding reason to be hopeful.[12]

More generally, however, the WTO has an important institutional role that goes well beyond just fostering freer trade. The institutional role of the WTO is to constrain countries from using trade policies that will hurt each other and themselves. Without such constraints, two things would guide countries' uses of trade policies. First, large countries would be able to use policies to gain at small countries' expense, and would have no reason not to do so. And second, weak and misguided governments would be able to use policies to benefit themselves and their "cronies," and domestic political forces would lead them to do so. The WTO, with its rules for what is acceptable behavior in trade policy and its DSM for enforcing those rules, helps to prevent both of these unfortunate outcomes. It protects weak countries from strong countries, and also weak

[12] For owners of textile firms it is more complicated in both places. Developed country firms may be able to take advantage of reduced barriers by moving production abroad, as many already have. And developing

countries from themselves. This is true not only for small countries, but especially for countries that are poor. Thus, in spite of the fact that the text of the WTO agreements was mostly drafted by the rich countries and even by their corporate special interests, the greatest beneficiaries from the WTO may well be the poor countries of the developing world.

Who loses from the WTO? Again, some of the losers are simply those who lose most from trade, and here we must point again to relatively unskilled labor in developed countries. It makes perfect sense that organized labor in developed countries should be skeptical of the benefits from the WTO, for the Stolper-Samuelson Theorem predicts that greater trade will hurt their members. In fact, as we discussed above, other sources of gain from trade may offset this, so we are by no means sure that developed country labor really is made worse off by trade. But even if labor gains from trade, it may lose relative to owners of more skilled labor and capital.

Aside from these effects of globalization itself, the policy discipline enforced by the WTO will also hurt whoever would otherwise want to use trade policy in ways that the WTO will prevent. Certainly, if there are countries that seek to use their economic size to take advantage of their trading partners, then they will be frustrated in this attempt by the WTO. Fortunately, we see little evidence in recent decades that the most powerful countries have sought to do this, however, so this may be a moot point. Specifically, the United States seems clearly to have had the best chance of exploiting others through trade, and yet for most of the last half century it has led the forces of trade liberalization.

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country firms may have prospered under the particular structure of the MFA, which granted export licenses to specified countries and firms and allowed those with the licenses to make extraordinary profits.

More likely losers, therefore, are those who seek to use trade policy for other legitimate purposes that will also be frustrated by the WTO. The shrimp-turtle case and others have already illustrated the problem in the area of the environment: Those who seek to halt environmental degradation quite naturally wish to use trade policies to achieve their ends, since few other policies exist that work so effectively across national borders. And yet to do so risks violating the strictures of the GATT and WTO. Environmental advocates therefore have sometimes found themselves hamstrung by the WTO rules, and they believe that they – or at least the environment that they represent – are hurt by the WTO.

It is surely true that the WTO has made the objectives of environmentalists more difficult to attain. Policies to improve the environment inevitably have costs, and some of these costs are borne by other countries when one country unilaterally uses trade policies for environmental purposes. The constraints of the WTO cause those costs to be given greater weight in decision making than would be the case if countries could act on their own. Inevitably this will mean that a smaller amount of environmental protection will result when these costs are factored in. This is as it should be, since global policy decisions should be made on the basis of global costs and benefits, including not only effects on those in all countries, but also all aspects of their lives, not just the environment. But advocates of the environment alone, whose role it is to pursue their own issue to the fullest, will indeed make less progress when their interests are balanced against those of others.

Those advocates might say, “Fine, but right now, the WTO does not just balance other interests against the environment; it rules the environment out of court. All we want is for environmental concerns to be brought into the WTO." In fact, the WTO does include several environmental clauses, and therefore even here the question is one of balance. How much role should environmental concerns play in justifying trade policies? Arguably, the current system has not done too badly. The problem with using trade policies for environmental and other purposes is that they are often too easy, and that they push the cost onto others. By limiting their use for these purposes, the WTO has forced their advocates to find other ways to achieve them that may be fairer to those who bear the costs. For example, the shrimp-turtle brouhaha has led, more quietly, to shrimp fishermen being equipped with TEDs at developed country expense. We would say that this was the right solution all along.

There are other issues, besides the environment, for which advocates wish to use trade policies, and those advocates too can be seen as losers from the WTO. Human rights is one. Labor standards is another. For both, the United States especially has a history of using trade policies to encourage higher standards abroad. This has been true especially for countries like China that have not so far been members of the WTO, but it is also included in our discretionary implementation of various preferential trading arrangements with countries in the WTO. Some therefore see the WTO as an enemy to human rights and labor standards. That conclusion is way too strong, but as with the environment, to the extent that the WTO interferes with policies that would otherwise be available to pursue these ends, the ends themselves will not be attained as fully.

In the case of human rights, the WTO actually does permit some uses of trade policies for this purpose, such as the economic sanctions that were used against Rhodesia in 1965 and against South Africa in 1985. Formally, these were permitted under Article

XXI of the GATT, based on actions taken under the United Nations Charter for purposes of peace and security.[13] The WTO does not permit unilateral sanctions for human rights purposes, however, and it is also not clear how easily "peace and security" can be interpreted to encompass human rights.

In the case of labor standards and labor rights, the issue is more complex, partly because it is so difficult to separate the moral from the economic, and partly because of different views of what labor standards mean economically.[14] Some labor standards, such as the prohibition of slave labor and exploitative child labor, are pretty clearly moral issues. Others, such as a minimum wage, are economic. And still others, such as working conditions and child labor with the approval of caring parents, are somewhere in between. Where to draw the line, and who should draw it, are hard to say.[15]

Economically, most labor standards have something to do with the level of remuneration of labor, even when they are not explicitly about the wage. But this too can be the subject of serious disagreement depending on how one believes that wages are determined. From the perspective of competitive markets, which guides most economists on this issue, labor standards are mostly about the remuneration of developing country labor versus developed country labor, and enforcement of higher labor standards in the former will primarily benefit labor in the latter, while putting developing country workers out of work. Another view, however, is that remuneration of all labor is at the expense of owners of capital, and thus higher labor standards will merely lower profits and not hurt

[13] See Jackson and Davey (1986, p. 917).
[14] The line between human rights and labor standards is not always clear. The right to organize and the requirement of a safe workplace are both included on most lists of labor standards, but they might also be regarded as human rights.
[15] For more on labor standards see Brown, Deardorff, and Stern (1996, 2000).

labor anywhere. In economic models, this view make sense primarily if employers have strong market power, something that globalization is in fact likely to undermine as MNCs compete with one another in labor markets throughout the world. But not everyone accepts market economics, especially non-economists, and there are plenty of subscribers to this view among opponents of the WTO.

What all this means is that, as long as labor standards are kept out of the WTO as they now are, advocates of higher labor standards have good reason to view the WTO has harmful to their cause. But just who are the real losers as a result is subject to debate. Perhaps it is workers world-wide, whose struggle against owners of capital is being undermined by the WTO as essentially a pro-capitalist institution. But modern economics suggests that it is only the high paid (scarce) workers in developed countries who lose from the WTO's exclusion of labor standards as a basis for trade policy. The beneficiaries of this exclusion are not so much owners of capital as the developing country workers whom labor standards are ostensibly supposed to help.

The latter view, which we share, is certainly the one voiced most prominently by economists and leaders of most developing countries. They perceive labor standards as mostly a disguised form of protection for developed country labor. From that point of view, the WTO is correct to continue to exclude labor standards from its purview, as part of its more general role of protecting the weak from the strong. We agree with the position taken at the 1996 GATT Ministerial Meeting in Singapore that issues of labor standards should be handled in the International Labor Organization, although we also would favor some increase in that organization's resources and effectiveness.

Other Objections to the WTO

Even among those who think the WTO is doing the right thing on issues of environment and labor standards, however, the WTO does nonetheless have flaws. One objection that has been raised frequently in recent months is its lack of transparency. The proceedings of the DSM panels are secret, and the panelists are provided information only by the participating country governments. Some argue that this makes the mechanism non-democratic, and they fear that it may be captured by the corporate interests who often have the greatest financial stake in the outcome. In particular they would like interested NGOs to be able to provide input to the process, and perhaps to have the panelists themselves selected by a process that they could influence.

In fact, the complaint about non-democratic procedures is ironic, given both that the WTO works by consensus among governments an increasing number of which are themselves democratic, and the fact that the NGOs that make this complaint are by definition self-appointed special interests. More important, however, is the concern that we have heard expressed by economists from developing countries: that opening up the DSM to greater public scrutiny and influence would cause it to be captured by precisely these special interests from developed countries.

Nonetheless, there is growing realization, even among defenders of the WTO, that the secrecy of the DSM process is counterproductive, at least in terms of public relations. It is also inconsistent with the rest of the WTO's procedures, which have always been quite open if anyone cared to look at them. Therefore many would advocate that the DSM should be revised to permit NGOs and others to provide input to the process by filing "friend of the court briefs" that could inform the panelists' decisions. Some would also argue that the panels themselves should be replaced by a more permanent body, rather than being assembled on a case by case basis. This second change might in any case become necessary as the number of cases continues to expand and the current more ad hoc procedure becomes unworkable. If this is done, then greater public input to the selection of members of such a body might be natural as well.

Another concern about the structure of the WTO has long been that a few rich countries dominate its decision making, and that developing countries have had little role. This has been true in spite of – or even because of – its formal reliance on consensus. With 136 member countries,[16] achieving consensus is simply not practical, and therefore it has been inevitable that a smaller group of countries have sought agreement among themselves and brought their decisions to the larger group for approval. This smaller group, named the "green room group" after the room in which they have sometimes met at WTO headquarters in Geneva, has been assembled on an ad hoc basis by the Director General and has included a mixture of developed and developing countries based on their interest in the issues being addressed.[17] However, many developing countries – especially the smaller ones – have been excluded and were not formally represented, not by design because there wasn't any design, but by default. Exactly how this situation can be remedied is not yet clear, but it is clear that it must be.

As already noted in particular contexts, a common objection to the WTO is that it overrules domestic laws. This is true, because that is its purpose. The GATT was created

[16] As of April 2000, according to the WTO web site.
[17] Our information comes from a personal communication with Rufus Yerxa, who participated in these meetings on behalf of the United States during the Uruguay Round negotiations. He lists almost twenty countries as having been present in the green room, including a handful of developing countries such as Brazil, India, and Nigeria.

as a treaty among countries to prevent them from using certain laws and policies that would adversely affect other countries. The WTO merely continues with that purpose. However, while the original GATT concentrated exclusively on one kind of policy that was explicitly international in its effects – tariffs – over time the GATT and now the WTO has expanded its coverage to many other policies, such as environmental laws, the primary purpose of which may not be international. Therefore critics object that the WTO is undermining domestic policies, not just the international ones that countries expected to give up when they joined. That too is true, to the extent that domestic policies have discriminatory effects against other countries. And countries might well want to reconsider their membership if they find these restrictions too onerous. Had the WTO existed in its current form for 50 years without the opportunity to withdraw, this might be a big concern. However, since all members made deliberate decisions to join only five years ago and the rules of the WTO have not changed at all in that time, it would be a bit surprising if many were now to choose to pull out.

A particular feature of the WTO that many object to is its refusal to allow countries to restrict imports based upon the process by which they were produced, rather than just characteristics of the product itself that is being imported. The WTO permits countries to exclude goods if they deem them harmful to health or the environment, for example, based on observable characteristics of the products themselves. However it does not allow countries to exclude goods based on the process by which they were produced. In practice countries often want to exclude imports if they believe the process by which they were produced may have harmed the environment, may have violated labor standards or human rights, may have adverse health consequences for consumers, or may be otherwise undesirable.

These are often legitimate concerns, and in some cases if these issues arose from an observable characteristic of the product rather than the process, the WTO might permit them to be excluded. However, the problem with exclusion based on process is that there is no way to observe the process at the border, when goods are being imported. Countries must therefore in practice exclude imports based on where they were produced, excluding all imports from any country that does not effectively ban the offending process. Or alternatively, they can intrude into the producing country in order to monitor and certify the process, excluding imports from any country that does not allow them to do this. Both of these practices go too far, many would say, towards discriminating against even harmless imports. Furthermore, the essence of comparative advantage is that countries should be free to produce goods using whatever techniques make the best economic sense for their own market conditions. Permitting restrictions based on process runs the risk of imposing particular production techniques on countries, and thus of undermining their comparative advantage. For these reasons, the WTO has maintained its position that process-based import restrictions are unacceptable.

A final concern of many critics of the WTO is that it is dominated by the interests of large corporations. That is surely true and probably inevitable, since it is large corporations that carry out most of the international trade that the WTO intends to foster. Indeed, it is the profit of these corporations that provides the driving force to produce goods and services in the first place, and deliver them to consumers in the world economy. Corporations have both the incentive and the resources to influence policies, and it would be surprising if they had not made their wishes known to WTO negotiators and officials.

However, this also means that the WTO includes elements that would not be there were it not for corporate lobbying, and some of these elements are undesirable. For example, almost all economists agree that antidumping statutes are economically nonsensical and pernicious, and yet the GATT from the beginning has included explicit permission and guidelines for countries to use them. The reason is evident: many corporations find antidumping duties a useful tool for protecting themselves from imports. More recently, the Uruguay Round added intellectual property rights to the coverage of the WTO, in spite of strong resistance from developing countries and in spite of arguments that they had no more business in the WTO than labor rights.[18] Nonetheless, the TRIPS agreement was completed and sold to developing countries in return for the market opening that was being offered in textiles and apparel. The reason, again, was that corporations made their interests in the TRIPS agreement very clear.

The WTO, then, is hardly a perfect organization. There is no doubt that it could be improved, but also that many of its flaws will inevitably remain, because they are there in response to political realities. Overall, it seems clear to us that the WTO serves an extremely useful purpose and that it serves it surprisingly well.

One indication that the WTO is not too far off the mark comes from the most vocal opponents of the WTO themselves. It is interesting that, although they are united in their unhappiness with the WTO, some complain that it does too much, others that it does too little. Environmentalists complain that it does too much, ruling against national

[18] See Deardorff (1990).

efforts to improve the environment, and they would like to see it weakened or destroyed so that national policies can proceed unhindered. Labor rights activists, on the other hand, complain that the WTO does too little, refusing to get into the business of enforcing labor standards around the world. They would like to see the WTO take on more issues, and interfere more with national policies.

What Happened in Seattle?

All that we have said so far is background for understanding the events surrounding the WTO ministerial meeting in Seattle in December 1999. These ministerial meetings are held regularly, every two years in a different location, but the purpose of this particular meeting was known well in advance: to agree on the parameters for a new round of multilateral trade negotiations. The result of the meeting was that this did not happen. The meeting attracted a large influx of protestors from many of the groups that we have mentioned here as critical of the WTO, and these demonstrated in the streets of Seattle and even prevented the opening meeting of the ministerial from being held. The negotiators nonetheless did have extensive discussions, but they failed to reach agreement and left Seattle empty-handed.

One issue is, why? The protestors naturally took credit for derailing the new round and stopping the WTO in its tracks. Those involved in the negotiations mostly say, however, that the protests had little to do with the failure.

The first problem was that the countries of the WTO had failed to agree beforehand on an agenda for these meetings. They had met at WTO headquarters in Geneva for some months trying to reach agreement, but they failed even then, long before the protests in Seattle. The meeting nonetheless went ahead, but it was crippled by this failure in the preparations, which in turn was due both to bad luck and to the depth of the disagreements dividing the participants in the negotiations.

The bad luck was that the United States was distracted from preparations for the ministerial by its negotiations with China on terms of entry to the WTO. These negotiations had begun much earlier and had been expected to be finished long before, but they instead were delayed by the accidental bombing of the Chinese embassy in Belgrade. As a result, the negotiations with China were stalled, then continued and finally concluded just weeks before the WTO ministerial. This prevented the United States from making all of the efforts that were needed to reach agreement on an agenda.

But agreement might have been elusive anyway. There were several very large disagreements dividing the participants, including whether even to discuss certain divisive issues. In agriculture, the United States and the less developed countries sided with other agricultural exporters wanting to push ahead with the agricultural negotiations that had begun in the Uruguay Round. The European Union and Japan wanted nothing to do with that. The EU was however on the side of the United States on another issue: labor standards. Both wanted to at least talk about labor standards in a new round, while developing countries, for reasons we have mentioned here, were firmly opposed. At the same time, the LDCs, the EU, and Japan sided together, against the United States, on the issue of anti-dumping. They wanted to reopen negotiations on anti-dumping procedures, in hopes of restricting the increasing use of these policies, but the United States refused. Finally, the developing countries were unhappy with the backloading of the textile agreement of the Uruguay Round, feeling that they had gotten very little market access in return for their acceptance of the TRIPS agreement. They wanted to renegotiate the timetable for elimination of the MFA, in order to bring barriers down sooner than the planned ten years. Here too, the United States and EU refused.

Now disagreements like these are what negotiations are all about, and the fact that the disagreements existed should not have meant that nothing would be achieved, especially when the only objective in Seattle was to agree to begin negotiations, not to conclude them. But on all of the issues just mentioned, one of the parties to the disagreement had the strong position that they did not want these issues to be discussed at all in negotiations, and this made it that much harder.

There were also other problems encountered in Seattle. The United States, as host of the meeting, wanted a new round that would take much less time than the Uruguay Round had, and yet would include a great many issues. Other countries may have felt that they were being railroaded. In addition, many of the key players in the negotiations were new to their jobs, including especially Mike Moore, who had been installed as Director General of the WTO only a short time before. Finally, the desire on the part of many participants for further multilateral liberalization may have been diminished by their participation in various regional trade agreements. These included the NAFTA in North America, Mercosur in South America, and the various free trade agreements that the EU has negotiated recently with a host of trading partners. Any or all of these may have been factors that exacerbated the difficulties of resolving the fundamental disagreements that the countries had on the issues.

Meanwhile, outside the meetings once they got underway, the protestors were gathered in unprecedented abundance. They included representatives of U.S. labor unions, labor rights activists, environmental groups, human rights advocates, and anti-corporate interests, all of whom were there for reasons already discussed. Their disruption of the meeting was confined to conventional forms of protest, such as picketing, chanting, and blocking streets. However, the event and the publicity surrounding it also attracted a group of self-described anarchists. These had no particular interest in international trade or the WTO, but were bent only on destruction, and they made news and enemies by throwing rocks and breaking windows. This drew more attention to the event than peaceful protest ever would have, but it is not clear who if anyone benefited from the disruption, or what effects it really had.

Toward the end of the week of meetings, with the negotiations themselves making little progress, President Clinton arrived in Seattle and made a speech that seems to have derailed them completely. Prior to his speech, the United States and EU had hoped to introduce labor rights into the negotiations in only a small way. They tried to persuade the developing countries that the issue would be subject only to discussion, not negotiation, and that there certainly would not be any change in WTO rules to permit use of trade sanctions in pursuit of labor rights. Whether their attempt could have succeeded is unclear, but in any case, Clinton in his speech explicitly mentioned the desirability of using trade sanctions to enforce labor rights. From that point on, developing country opposition hardened, even to discussing the issue, and it became clear that no agreement on an agenda for a new round would be reached.

As we said, the protestors take credit for this failure, while the negotiators say that the protestors made little difference. We do not know who is right, and perhaps nobody does. It does seem clear that Clinton's speech was the final straw that prevented agreement, and one has to wonder whether he would have said what he did without the protests and the news surrounding them. On the other hand, even if his remarks were a response to the protests, he may have made an assessment that the meetings were going to fail anyway, and thus decided to collect some political points for Al Gore from the opportunity. He may also have decided that he would primarily push for permanent normal trade relations (PNTR) with China and did not want to further anger labor until after the election. We have no way of knowing.

It should be noted, however, that the failure of trade negotiations is hardly unprecedented. In the early 1980s, the United States tried at another ministerial meeting to initiate a new round, and it also failed then. Later, once the Uruguay Round was underway, negotiations fell apart several times, and each time they seemed to have no hope of being restarted. Nonetheless they did, and the round was eventually concluded successfully. It is therefore quite possible that what was not accomplished in Seattle will happen later, at another time and place.

What To Do?

What are the possible next steps, both for those who oppose the WTO and for those who support it? The choices for opponents surely must depend on what they really want, since as we have seen, they do not, ultimately, all want the same things. Some would like to see the WTO disappear, and they may want to press for the United States to withdraw from the organization itself. It is not clear that this would kill it, but U.S. refusal to participate in international organizations has had that effect before. And in any case, withdrawal of the United States from the WTO would render the WTO unable to interfere with U.S. policies.

However, those who advocate this route should also do their best to foresee how other countries would respond, and whether their aims would truly be helped by the U.S. departure from the WTO. If America were to begin throwing its economic weight around with trade sanctions and the like, it could certainly make life difficult for other countries and perhaps bend some of them to its will. But others would retaliate in ways that could make everyone worse off, including those who advocated our withdrawal.

Short of advocating withdrawal, opponents might merely continue to protest whatever actions the WTO and its members try to take. Continuing to express their unhappiness, but not attempting to use it to accomplish changes in policy, might nonetheless continue to slow down any progress by the WTO, just as it may have done in Seattle. Judging from the April 2000 protests at the IMF and World Bank meetings in Washington, D.C., protest against globalization in all forms has acquired a life of its own, and this may be what we will continue to see for some time to come.

But it is also possible that opponents could take more specific action. As this is being written, the issue of granting PNTR to China in connection with China's accession to the WTO is heating up in U.S. politics, and it is scheduled to be decided within the month. Those who oppose the WTO for almost any reason are opposed to granting PNTR to China, and they are doing their best to fight it.

Also, later, before any new trade negotiations involving the United States can make serious progress, the president will have to get fast track legislation from the

Congress.[19] This has been blocked twice already in recent years, and blocking it again may be the most effective means that opponents have of preventing any forward movement on trade, if that is what they want.

On the other hand, that is not what all of them want. Some want the WTO to do more, not less, and for them the key is to get the WTO moving again but with guidance from themselves. For this purpose, they should be (and are) pushing for greater transparency and input from NGOs, such as we mentioned above.

What about proponents of the WTO in more or less its current form? What can they (we) do?

The most obvious option is simply to continue along the path already laid out in the Uruguay Round negotiations, which spelled out several negotiations (the "built-in agenda") that must be pursued under that agreement. That is happening. Indeed, some of the less informed protestors must have wondered, on February 8, 2000, when the *Wall Street Journal* headlined "WTO Will Launch Talks to Lower Trade Barriers," just how this could have happened. Of course, this is *not* the new round that failed to start in Seattle, but only a review of barriers in agriculture and services that was scheduled in the Uruguay Round. But it is a positive sign that countries are once again talking.

Some still hope for a new round to start soon, but they mostly agree to wait until after the U.S. election. Then, depending to some extent on who is elected – although both candidates have expressed strong support for the WTO – it may be possible with new U.S. leadership to raise the issue again. That remains to be seen.

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[19] This is a promise by the Congress not to amend trade legislation brought to it by the president, the purpose being to make credible the administration's negotiations with other governments.

Perhaps most important for those who support the WTO, however, would be to pursue any changes in the institution on which they can agree with the opponents. This could make the WTO into something that more would support. Here too, many would favor improved transparency of the operations of WTO panels, and a greater effort on the part of the WTO and its friends to explain itself to the public. Indeed, this paper is an effort in that direction.

Some supporters of the WTO may also favor, or at least be willing to accept, greater participation by NGOs. If that participation is limited to the filing of friend-of-the-court briefs that dispute settlement panels could choose to read or not as they see fit, then this might open up the process without unduly weighting it in favor of those with the most resources.[20] However, for the most part we still prefer that NGOs continue to express their views through duly constituted national governments. If greater transparency serves better to inform the NGOs of what issues are being addressed in WTO discussions and the panels of the DSM, then they should have no difficulty using this channel to convey their views and the often valuable information that they can provide.

There is, however, one area where we do definitely favor greater participation in the WTO. A way must be found for the developing countries to be more formally represented in the decision making of the organization. Exactly what form this should take we do not know. Perhaps it could be a steering committee with both permanent members from the large developed countries and a rotating set of representatives from both small and poor countries. It will not be easy to choose these representatives in a way

[20] A recent Appellate Body decision has permitted such input to the DSM.

that is fair to all countries. But some way must be found, if the WTO is to move ahead in a world where developing countries are coming to play ever more important economic roles.

IV. Conclusion

This paper has turned out longer than we intended, and no doubt it includes much more than the public really needs to know. In this conclusion, we try to distill what we have said into a list of the essentials:

On Globalization:

1. Globalization refers to the most recent expansion of global trade, together with expanding flows of real and financial capital across national borders.
2. Globalization increases average real incomes in all countries, but within countries the gains are shared unequally and some may lose.
3. Losers from globalization include owners of scarce factors, as well as those who derive their incomes from industries that contract due to foreign competition if they cannot easily change their location, skills, or industry of employment.

On the WTO:

4. The WTO was formed by governments for the purpose of promoting globalization and of preventing countries from hurting each other and themselves with their trade policies.
5. Those who gain most from the WTO are those who gain from globalization and especially those small and poor countries who would be hurt most by nationalistic use of trade policies.

6. The WTO limits those who would use national trade policies to pursue other goals, including environment, labor standards, and human rights, forcing them to seek other means of attaining their objectives without imposing costs on other countries.

7. The WTO provides a dispute settlement mechanism that has been quite effective, but its operation has been less transparent than it could be.

8. The WTO tries to operate by consensus, but its large membership makes that process, though democratic in principle, unwieldy and exclusionary in practice, leaving many developing countries especially without a voice.

On Seattle:

9. The protests at the Seattle ministerial meeting in December 1999 heightened public awareness of globalization and the WTO, and they may have contributed somewhat to the failure of that meeting to initiate a new trade round.

10. The more fundamental reason for the failure of the Seattle ministerial, however, was the deep disagreements that separate the major groups of participants on issues of agriculture, labor standards, anti-dumping, and market access in textiles and apparel.

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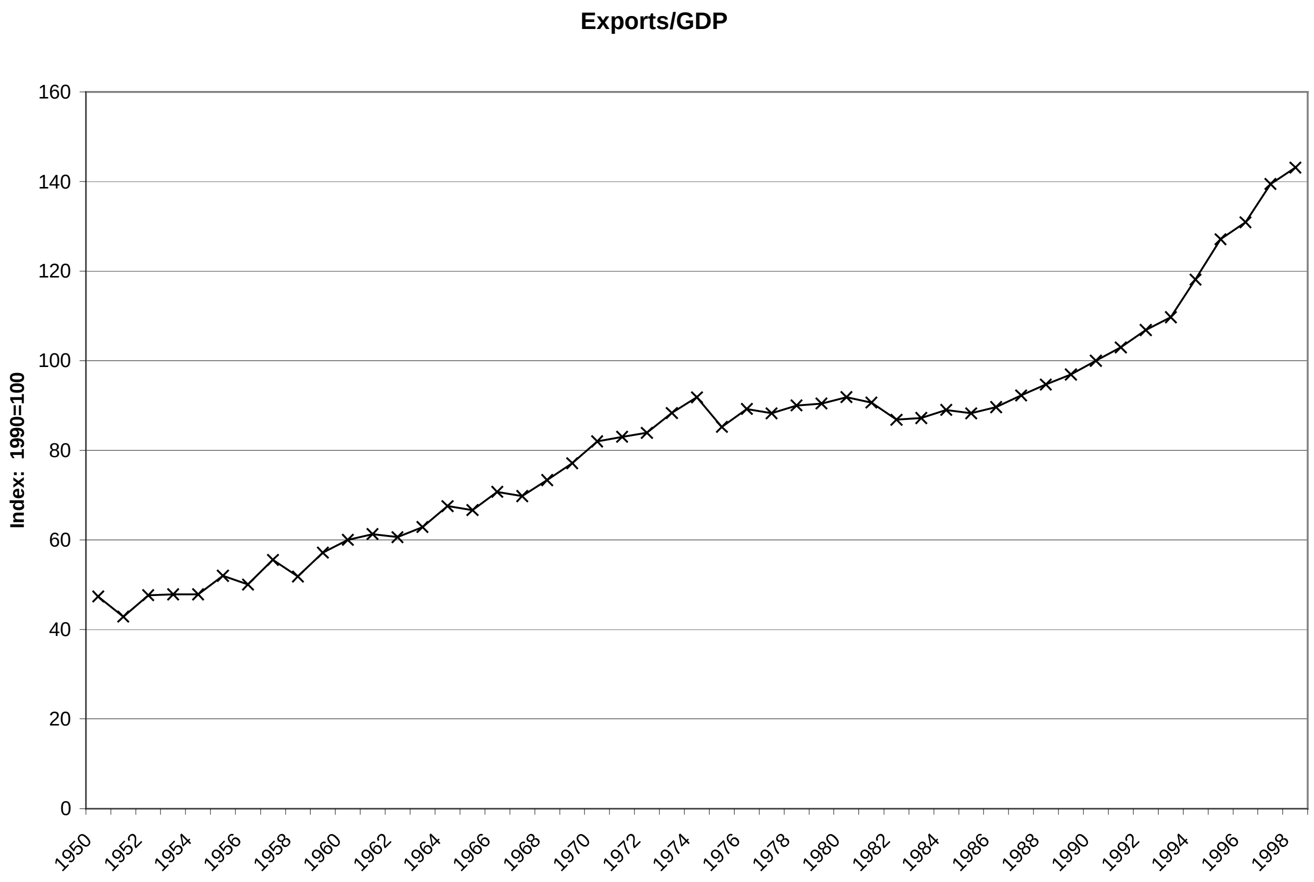
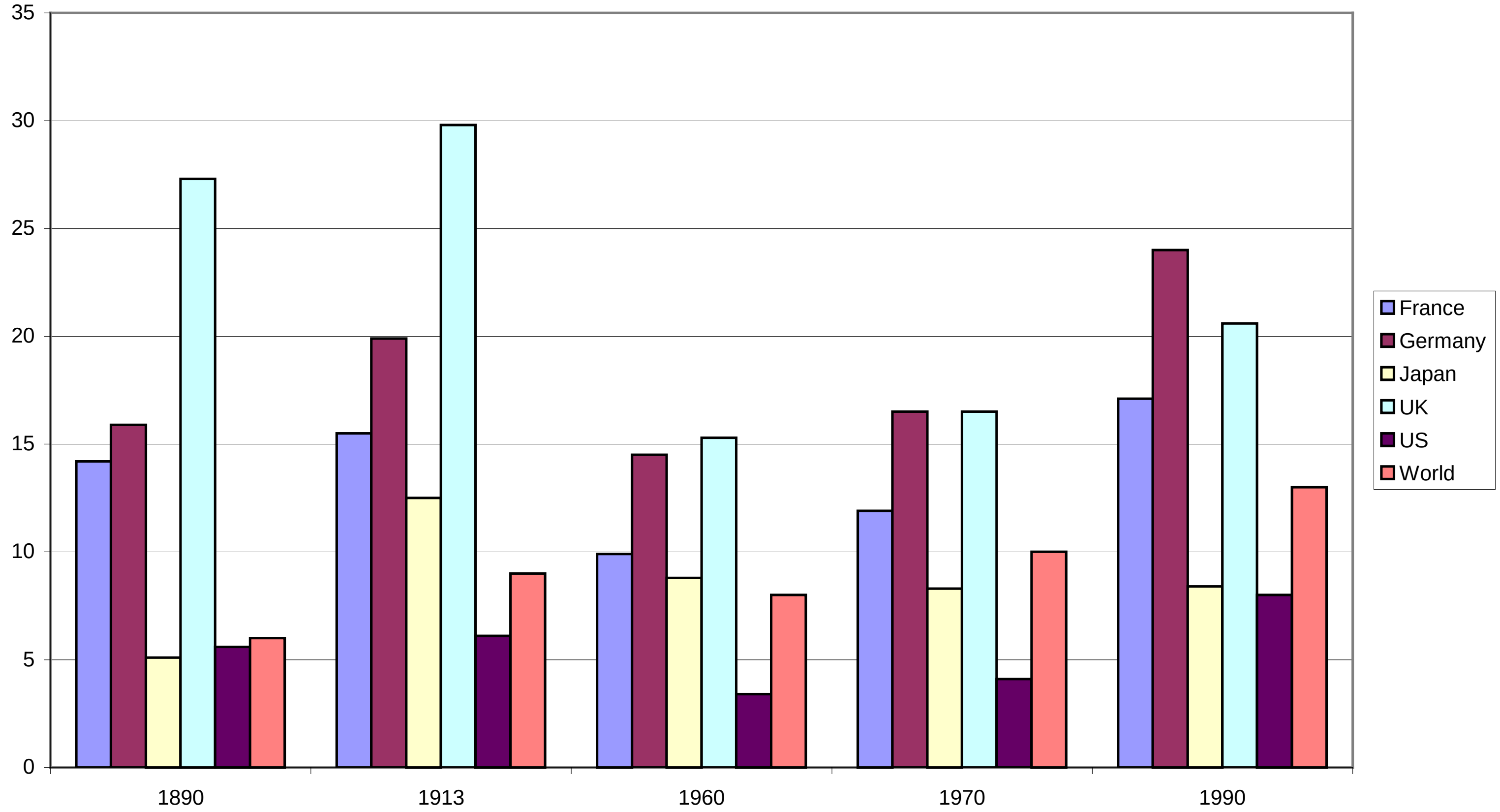
Figure 1
Index of Ratio of World Merchandise Exports to World GDP
1990=100



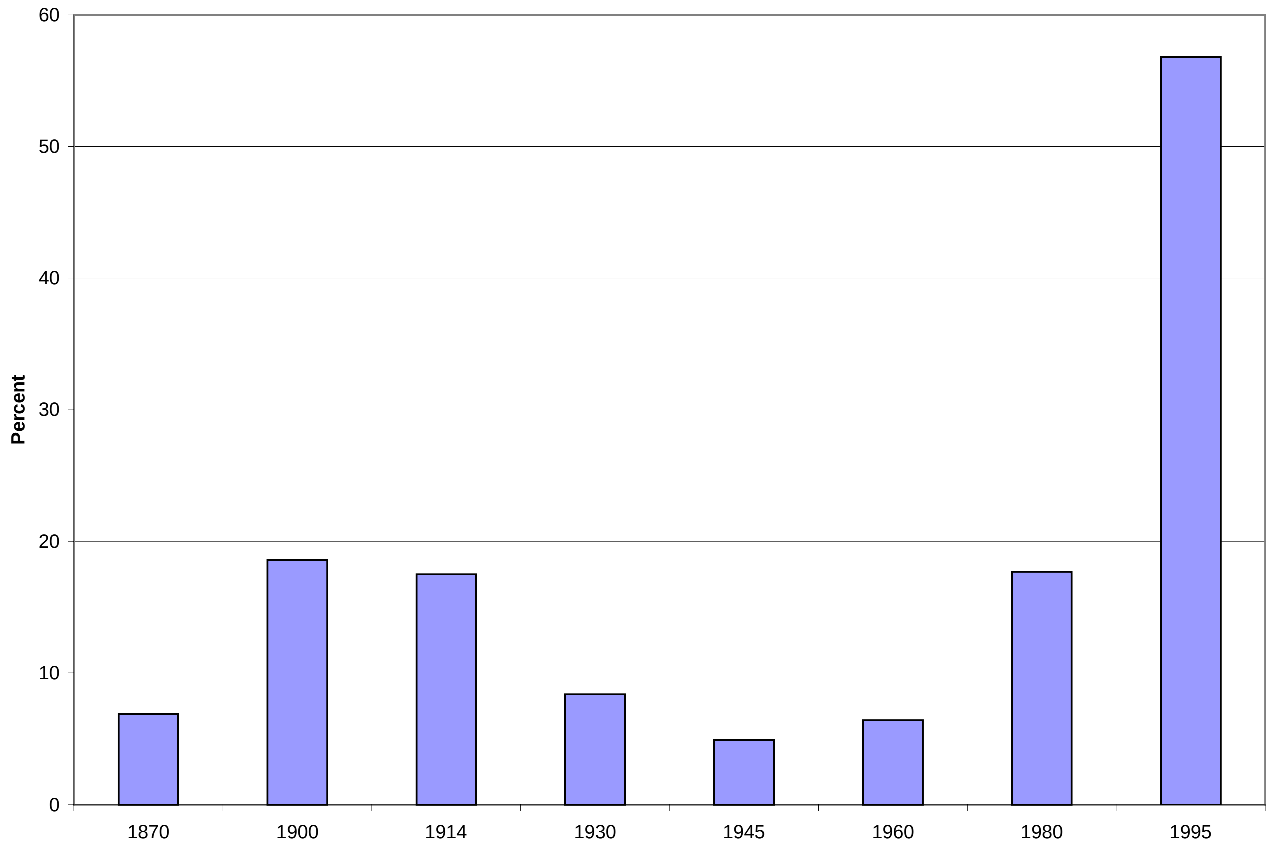
Source: WTO, International Trade Statistics, 1999

Figure 2
Ratio of Merchandise Exports to GDP for Major Countries and the World,
Selected Years 1890-1990
(Percent)



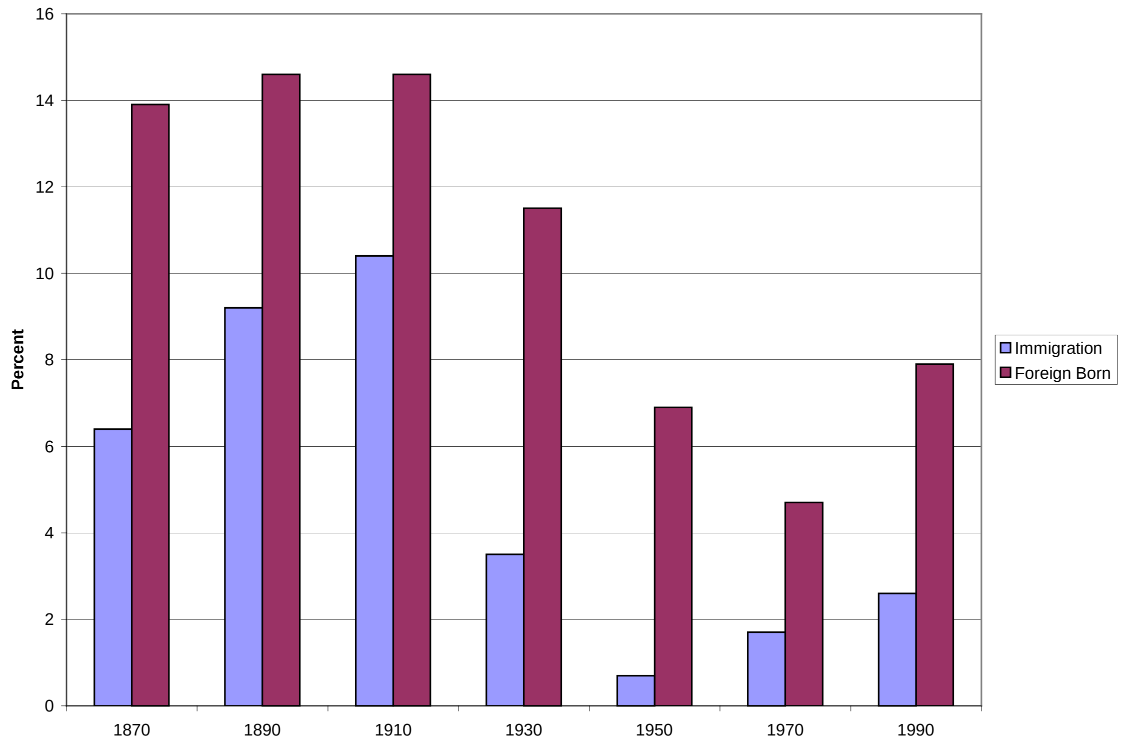
Source: Crafts (2000), Table 2.1, p. 26.

Figure 3
Ratio of Foreign Assets to World GDP
Selected Years 1870-1995
(Percent)



Source: : Crafts (2000), Table 2.3, p. 27.

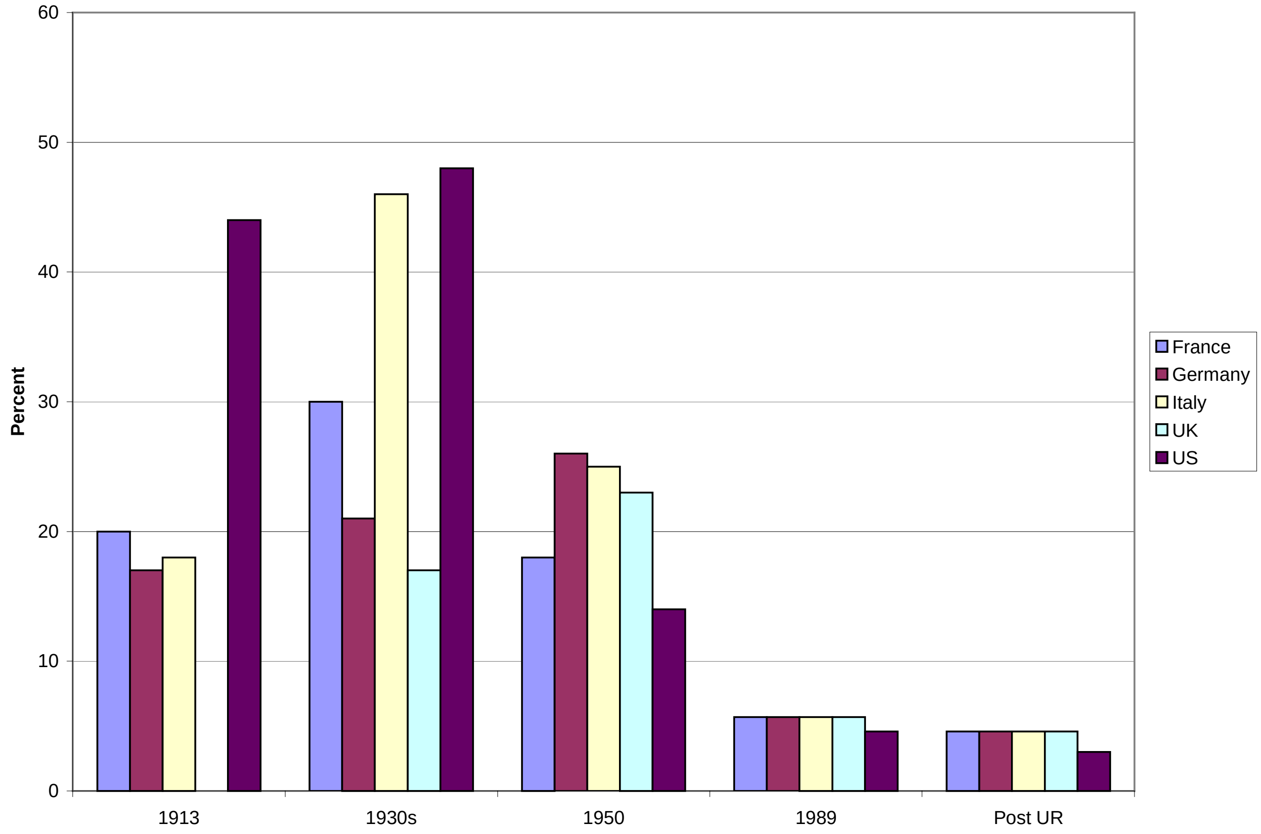
Figure 4
United States: Immigration Rate
and Percentage of Foreign Born Population
Selected Years 1870-1990



Immigration: Rate / 1000 population
Foreign Born: as Percentage of Population

Source: Crafts (2000), Table 2.5, p. 30, from U.S. Bureau of the Census

Table 5
Average Tariffs on Manufactures
Selected Years 1913-Post-Uruguay Round



(Percent)

Source: Crafts (2000), Table 2.4, p. 28.

Table 1
Rounds of GATT
Multilateral Trade Negotiations

No.	Years	Name	Accomplishments
1-5	1947-61		Reduced Tariffs
6	1964-67	Kennedy	Tariffs + Anti-dumping
7	1973-79	Tokyo	Tariffs + NTBs
8	1986-94	Uruguay	Tariffs, NTBs, Services, Intellectual Property, Textiles, Agriculture, Dispute Settlement, Created WTO

TABLE 2
WTO Disputes: Consultation Requests
January 1, 1995 to March 23, 2000

	Respondents					
Complaints by	United States	Japan	European Com.[a]	Oth. Ind. Countries	Dev./ Emerging	Total[b]
United States	–	5	25	7	24	61
Japan	4	–	–	–	3	7
European Communities	16	6	–	5	25	52
Other Industrialized Countries	5	1	5	3	12	26
Developing/Emerging Economies	17	–	17	1	25	60
Total[b]	43	11	47	16	89	206

Notes:
[a]Includes complaints against the European Communities (EC) as well as individual EC member countries.
[b]Totals reflect individual cases involving more than one country requesting consultation with respondent.

Source: World Trade Organization, "Overview of the State-of-play of WTO Disputes," http://www.wto.org./wto/dispute/bulletin.htm, 23 March 2000.