

PANEL DISCUSSION

ON

**THE SEATTLE MINISTERIAL CONFERENCE:
ROAD AHEAD FOR
DEVELOPING COUNTRIES**

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December 13, 1999



**Indian Council for Research on
International Economic Relations
&
Delhi School of Economics**

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Foreword

Recognising the importance of the third Ministerial Conference of the World Trade Organisation (WTO) which was held at Seattle, USA, from November 30 to December 3, 1999, and the need for a debate on the prospects for the developing countries, the Indian Council for Research on International Economic Relations (ICRIER), jointly with the Delhi School of Economics, organised a Panel Discussion on “The Seattle Ministerial Conference: Road Ahead for Developing Countries” on December 13, 1999.

We were fortunate in getting an excellent panel of eminent economists and distinguished civil servants to participate in the discussion. We began with an initial presentation by Mr. N.K.Singh, Secretary, Prime Minister’s Office, who accompanied the Commerce Minister of India as part of the official delegation to Seattle. His account of an insider’s view was followed by that of Prof. T.N. Srinivasan of Yale University, author of the much-acclaimed book, *Developing Countries and the Multilateral Trading System*. A non-Indian professional perspective was provided by Prof. Anne Krueger of Stanford University who has recently edited the book, *The WTO as an International Organisation*. Mr. B.K. Zutshi, India’s Chief Negotiator at the First Services Round of the WTO and chief co-ordinator

of an ICRIER project on services was the final speaker.

The presentations, which were followed by a lively Q & A session, are presented here for wider dissemination.

Isher Judge Ahluwalia
Director & Chief Executive
ICRIER
December, 1999

Panel Discussion

The Seattle Ministerial Conference: Road Ahead for Developing Countries

Dr. Isher Judge Ahluwalia

On behalf of ICRIER and the Delhi School of Economics it is my pleasure to welcome all of you to this panel discussion. We very carefully selected this panel and thought this would be a very opportune time for us to organise a discussion on a subject on which a lot of us are perhaps still very confused. We planned this discussion with a view to getting different perspectives from people who have been negotiating on India's behalf at the WTO

and other speakers from both within India and outside.

Interestingly, there is still a debate on what actually transpired at Seattle and on who was responsible for the impasse. One view which has been widely expressed is that developing countries were responsible for the failure of the Seattle Meeting because they were united in their resistance to the linking of trade with labour and environmental standards. Another view is that it was the difference of opinion between the US and the EU, particularly on agriculture, which prevented a successful conclusion of the Seattle meeting. I believe that the EU and the US have not been able to get their act together. And so we in India gain some more time to get our act together and prepare ourselves for the mandated negotiations which are likely to begin soon.

We hoped to have Mr. A.V. Ganesan, Advisor to ICRIER on WTO issues and Former Commerce Secretary, with us, but, unfortunately, he has fallen sick. We are very happy indeed to have with us Mr. N.K. Singh, Secretary to the Prime Minister, who was there in Seattle when it was happening and he made it happen. So we are counting on him to give us an authoritative view on what happened and how do we see the outcome of the Seattle Meeting. Then, to respond to Mr. Singh's version, we have with us here Prof. T.N. Srinivasan from Yale University and Prof. Anne Krueger of the Centre for Research on Economic Development

and Policy Reform (CREDPR) at Stanford University. We also have Mr. B.K. Zutshi, Vice Chairman, TRAI, with us on the panel. Mr. Zutshi is the chief co-ordinator of a major project that ICRIER has been undertaking for the Ministry of Commerce in partnership with the private sector on opportunities and constraints for trade in services.

I would like to pose a few questions so that Mr. N.K. Singh can respond to these in his presentation. I think what is on the minds of most of us is what lay behind the collapse of the trade talks. Was it really a victory for the NGOs as they seem to pretend? Has the fight against linking trade to labour and environmental standards been won? Did the talks fail because developing countries were left out of the so-called 'Green Room' process? And while it may be true that developing countries were quite adamant on not giving up labour standards, is it not true that the problem lay somewhere else? Again, when we say it is the Big Four or the Big Two, depending on how we look at it, who was responsible for the collapse? Can one say that it is really Europe's reluctance to give in on agriculture that was the problem or was it really that the US was not willing to accept a comprehensive agenda? These are the questions on people's mind. Finally, there was also an interpretation being given, and there seems to be some justification for it, that the Seattle Ministerial Conference got linked with US domestic politics, and that the US President felt he

had to placate the American labour interests. Be that as it may, what we really hope to get from experts here is their view on what the result of the Seattle Conference means for developing countries, particularly for India, and how we can use the time that we have gained to prepare ourselves better for the next round.

Mr. N.K. Singh

I think Isher has given me a very wide spectrum on which to make observations and also to address myself to some important questions. The first thing about Seattle which I am happy to say is that I survived Seattle!

It was my first encounter with facing a pepper gas attack! As I emerged from the conference hall I realised for the first time in my life what pepper gas was like. It was very evident that the politicisation of the WTO process had begun in a very very significant manner. I think the technocracy at that particular point of time was at a low ebb and obviously the political process had taken over in a very significant way. That's the first thing which comes to my mind, namely, how much and how quickly the GATT's technocratic institutions have got increasingly and dominantly politicised.

My second very broad observation would be that I have not yet encountered any conference of the likes of Seattle where four months after an

intensive discussion in Geneva the entire ministerial declaration was still in square brackets. There was not one paragraph which was agreed to. There was not one subject on which there had been convergence of view and the entire so called 'Green Room' process that had happened in Geneva was carried forward for resolution in a four-five day meeting in Seattle. What we, therefore, encountered in Seattle was a complete disagreement on the text, on every bit of the text, with difficult positions all around.

It was quite an extraordinary ministerial meeting, therefore, since the ministers were supposed to begin afresh, not basing themselves on whatever had happened in the 'Green Room' in Geneva. This in my view has more to do with the dynamics of the functioning of the WTO. Many developing countries thereafter agreed with the closing remarks of USTR, Ms. Charlene Barshevsky that greater transparency was needed to be injected into the decision-making process and in deliberations at the WTO. In the very old days GATT was a rather very small closed entity where the technocracy and decision-making was very easy even though the implementation of decisions was very cumbersome. Here is an organisation which has not changed the rules of functioning very much despite the fact that the members have increased exponentially to 134. It is not easy to find models of organisations which are participatory in the fullest extent, and yet the decision-making process is sensible.

The 'Green Room' process is so called because in the very old days the room of the DG-GATT used to be painted in green where he used to have some limited consultations with a limited number of countries arriving at a conclusion. This got expanded to include 20 or 21 members, and the process got carried forward from Geneva to Seattle. So when there was no consensus in the plenary at Seattle and the USTR resorted to 'Green Room' technique of trying to forge a consensus where there were clear divergences there was resentment among many developing countries. This was because ministers of over 100 countries had been left out of the 'Green Room' process. Most countries of Africa, and a number of countries in Asia had by then made up their mind that they would discard any agreement which came out of such a 'Green Room' process. Therefore, the whole talks were called into question.

Had the WTO's method of work, its organisational modalities adjusted itself to the changing needs of time, and if thought had been given by the WTO on how to combine the virtues of efficiency with virtues of participatory process, things may have been different. I always think of the Bretton Woods institutions as one possible model of efficiency. Other hybrid models which have got created are the Global Environmental Facility which is a combination of a participatory model of the UN variety and a more efficient model of the Bretton Woods variety.

Clearly such questions became dominant in the minds of people when they found that the dynamics of the 'Green Room' negotiations in Seattle had left a large number of countries outside the negotiating process. This is another general remark I would like to make which not only has relevance in terms of what happened in Seattle but will also have a very important bearing on when discussions are resumed.

On the substantive side, clearly on agriculture, the divergences between the US and the European Union, which were very dominant in Geneva, got carried forward in an unresolved way to Seattle. In fact three-fourths of the last day was spent on the wording on subsidies whether they should be phased out completely or progressively reduced and so on and so forth without any tangible conclusion coming to the forefront. When we had negotiated it in Geneva, the position seemed to be that if you want a meaningful progress in agriculture then you must have a large comprehensive agenda. The US position upto that time seems to have been that we will have an agenda, though not as comprehensive as Europe may want. Europe must have accommodated therefore some of the concerns of the other countries particularly the Cairns Group of countries on agriculture.

The issue of agriculture therefore remained unresolved for the substantial period of discussion

in Seattle, though it is an issue which is part of the mandated negotiations arising out of Marakkesh Agreement, wherein from January 1, 2000, the WTO is supposed to undertake mandatory negotiations. What is left unanswered is the quality of negotiations, the time frame of the negotiations and the kind of result expected from the negotiations. That was an area where a firm fix was not possible in Seattle. The text on agriculture did reflect our views on areas of food security and the kind of agricultural policies we have. So it wasn't troubling us too much that the differences between Europe and the US and the Cairns Group remained unresolved. A number of Latin American countries which wanted to see very visible progress on this were disappointed.

In the area of market access for non-agricultural products there was a fair amount of agreement that we need to launch a new round of reduction of tariffs and most developing countries were of the view that this issue was linked with a movement on the speed with which developed countries would reduce peak tariffs. But that was an area where I believe it would have been possible to reach an agreement if the discussion had continued any longer.

On the broad issue of investment policies there were sharp disagreements. There were countries which believed that this is an issue which needed to be addressed bilaterally. In fact a large number of countries which are undertaking successful

bilateral investment promotion agreements were quite happy and felt it was not necessary to have a multilateral framework for an investment agreement. The Working Group which has been constituted on this subject following the Singapore meeting had not come to any conclusion on putting this on a negotiating mode. And I think the differences on this issue remain unresolved till the very end.

On the broad area of trade facilitation there seems to be a wide measure of agreement that this is an issue which deserves to go forward because simplification of customs rules and simplification of procedures for exports and imports would also be to the advantage of developing countries. This is an area where it would have been possible to reach some measure of agreement if the negotiating process had come to conclusion at Seattle.

In the area of transparency on government procurement there were differences, because there were some countries which wanted to concentrate on transparency of government procurement and felt the issue is ripe enough for negotiations but others did not. But this was not an area which was regarded as a make or break issue for the conference.

On services, the disagreement from India's point of view was limited and quite bridged. On the broad area of electronic commerce, the main

issue is a roll over of the zero tariff regime on which there seems to be wide unanimity. Similarly, on ITA-II there were only one or two issues which remained unresolved to the very end but I do not think that these would have been a stumbling block if there was time for a quick resolution.

What are the issues which remain very difficult? Clearly, labour. If you ask me whether it came as a surprise to me how quickly labour became a dominant issue at Seattle, the answer would be in the affirmative. I had been to Geneva for two rounds of informal consultations. It never appeared to me that labour would become such a high priority issue for Seattle. But when we reached Seattle, issues which had appeared important from the Geneva perspective got suddenly left by the way side and this became the critical issue. And it became an issue of great divide.

I do not know if the American delegation itself may or may not have been taken by surprise, but events moved very fast. I have talked about the politicisation of the WTO process. The fact that the demonstrators came from the steel industry in a very significant way really contributed to this kind of feeling that labour had suddenly become a very divisive issue. I think it would be fair to say that developing countries were united across the board that they would not be agreeable to a movement beyond what was agreed to in Singapore on labour

and trade. What was agreed to in Singapore was not so insignificant.

At Singapore there was a clear reiteration of the member countries' faith in core labour standards, rights of labour, on the worst forms of child abuse, and so on and so forth. It was also agreed that the existing collaboration at the secretariat level between the ILO and the WTO would continue in the future. So I think that we were quite agreeable to this kind of collaboration to really continue. But pressure was exerted even at that time to lift this issue from where it was in Singapore and, if not put it in a negotiating mode, then certainly to put it in a mode where enough reason existed to create apprehensions in the minds of developing countries that it was only just a matter of time when this would become a major issue of non-tariff barriers and utilised for protectionist purposes.

No amount of statement would give developing countries a measure of comfort that this indeed was not the intention for which labour standards were being linked to trade policy. This is clearly an issue of great divide where differences remain unbridged. On environment, also, the differences were very large. It is not only because the Committee on Environment and Trade has given itself a wide mandate, but also because there is an attempt to mainstream environment as part of the dynamic of future negotiations.

There were two other issues on which divergences continued till the end. One was the issue of what has been loosely described as coherence or convergence, which really means bringing in lot of other international organisations into the WTO. It was also mixed up partly with the issue of participation of civil society, which meant a kind of *amicus curae* coming into the dispute settlement mechanism of the WTO, which in our view would have really destroyed the integrity of the WTO's functioning and the integrity of the dispute resolution mechanism.

Finally, from the view point of the developing countries, the key issue on which they were seeking comfort and got very modest comfort till the end were issues of implementation, the issue of symmetry and the issue of inequities arising out of the Marrakesh Agreement. Some of these issues related to subsidies, anti-dumping and textiles, where developing countries saw a lack of intention on the part of the developed countries. There was a feeling that it was going to be back-loaded in a manner that there will be a going back from the commitment. We wanted some kind of commitment on textiles, some commitment on TRIPs and TRIMS. But movement on these issues was very tardy. Towards the fag end of the conference we did see some movement on the implementation issues which would have given us comfort on some areas of key concern. This would have required that the entire thing had to be agreed as an integrated package because the conference

began with the remark of Charlene Barshevsky arising out of the WTO and GATT philosophy that nothing is agreed to till everything is agreed to. Since there was a lot that could not be agreed to, nothing on which we could agree could be of any value. Broadly speaking, this was how the dynamics of the negotiating process ran.

Isher has raised some difficult issues which are more frontal and I do not know how one could respond to that. Let me put it this way, if I were to club the issues and ask myself where do we go from here and what are the options, then, to quote the Prime Minister when he spoke to the India Summit of the World Economic Forum, “in the aftermath of the Seattle conference, India looks to an early resumption of the dialogue because we do believe that for a country like India, the strengthening of a multilateral rule-based non-discriminatory framework of trade is the only guarantee of fairness and only this can ensure better gains from trade and foster a sharing of prosperity”. Our position has been clearly stated. It remains an open question as to how long this will remain in a logjam. The view has already been expressed that the timing of the Seattle Meeting was wrong since it coincided with or got somewhat linked up to the elections to the US Presidency. In fact Charlene Barshevsky had been asked at an earlier meeting whether the timing was a happy timing, since the US President does not have a mandate for fast track negotiations. Her response was that whatever is

agreed to on the US soil, subsequent US administrations are not likely to resile from that commitment. That is one way of replying to the question. But clearly there is an international public opinion which is being expressed that a sensible resumption of dialogue will only be after the elections to the US presidency. This shifts the calendar by two years, because if the new President is to assume office in January 2001, and a new USTR has to be appointed, then there is the confirmation process, and so on. The calendar gets shifted to the autumn or the winter of 2001.

In my view that would be undesirable and unfair, particularly since under the new WTO arrangement, the ministerial meeting is to take place once in two years with a possibility of a review meeting. Will this mean that we skip all this? Then how is a logjam to be broken? Pascal Lamy, the EU Trade Commissioner was questioned repeatedly on this. He knows this is Europe's moment in history. The European Union can take the initiative to try and resume the dialogue from where it was interrupted in Seattle. Are there unsolved issues even if the dialogue is resumed? On what terms will that dialogue be resumed? Before the resumption of that dialogue, will the issue of agriculture get resolved in a sensible way? Will countries be willing to engage themselves on a more limited agenda, and not a comprehensive agenda of the kind which has been proposed at Seattle?

These are imponderable issues and difficult to answer. But among the developing countries, the position is very clear that we would like to see the multilateral framework strengthened. The danger is that if the three major powers do not find comfort from the WTO and its structure, bilateralism in trade may begin to take precedence over multilateralism. And this I believe is a real danger which we must safeguard against. We must keep the international community engaged in the belief that it is only a multilateral framework which offers a guarantee for long term prosperity which is equitable and which can be evenly shared. And it is to this objective that India as a developing country and as a country which has considerable stake in the multilateral institutions will engage its energies and its attention in the months which lie ahead.

Prof. T.N. Srinivasan

After a very comprehensive presentation by Mr. Singh, let me try to present the issues as I see them. There are two distinct but related sets of issues in analysing the Post-Seattle options for developing countries in general and for India in particular. The first set relates to whether or not the rule-based, non-discriminatory and member-government driven system that the WTO is deemed to embody has been permanently hurt by the Seattle fiasco. If this were to be the case we need to review our position whether or not this is the time to launch a new round and should one be launched,

what the negotiations should cover. We need also to think about structural changes in the WTO itself.

On the other hand, if the WTO system has not been permanently damaged by Seattle we need to only think about our interest in the already mandated built-in agenda of the Uruguay Round, i.e., namely the review of agriculture and services agreements as well as the concluding agreements on maritime services and the movement of natural persons.

I take the more optimistic view that the Seattle fiasco, though undoubtedly a serious setback, has not permanently damaged the WTO system. Only those with very short memories would not recall what happened at the Punta del Este Ministerial Meeting that launched the Uruguay Round in the first place. Also, there was no single agreed text to begin the ministerial meeting. And until the very last moment there was lot of posturing with the United States delegation threatening to leave before the conclusion of the meeting. An eventual compromise was made at the very last minute. Indeed, among those compromises was the US demand for services to be included in the agenda but on a separate track. Mr. Singh had mentioned the 'Green Room' process but even in the Uruguay Round, the chairman of the ministerial meeting had a mini-plenary where he had a subset of members and the mini-plenary was by invitation only.

Why did this not create a problem at Punta del Este but result in the failure of the meeting at Seattle? One reason has already been mentioned by Mr. Singh, i.e., the US Presidential election loomed large. President Clinton could not be seen compromising on issues raised by powerful labour union supporters of the Democratic Party relating to labour standards. The second was the unusually strong cohesion among the developing countries particularly on labour standards and also on other issues. Such cohesion was not there among the developing countries in the Uruguay Round negotiations and it was there in the Seattle meeting, and this is a new element.

If this analysis is correct, then a number of things follow. First, there was no way a compromise could have been forged in Seattle. Second, no substantial progress towards a compromise is likely until after the US Presidential elections. Third, while the setback in Seattle was inevitable because of the timing of the meeting, it does not permanently damage the WTO system. Although, I cannot firmly establish this relatively optimistic assessment, I do believe it is essentially correct.

Let me now proceed to discuss briefly what in my view are the issues and options in the follow up to Seattle from the perspective of developing countries. First of all, Mr. Singh raised the issue whether there should be a new comprehensive round or should negotiations be restricted to the

built-in agenda of the Uruguay Round. The case for a comprehensive round basically rests on two traditional arguments. First, there are already visible protectionist forces in the EU and the US and such protectionist forces would be strengthened unless there is a new round for trade liberalisation. I am not entirely persuaded by this, the so-called “bicycle theory” of trade liberalisation, but I do not wish to dismiss it altogether. But I must also say that there is the unholy alliance of protectionists consisting of industrial labour unions in rich countries masquerading as the champions of the welfare of workers, particularly, child and female workers in emerging markets, the “do-gooders” who may be genuinely concerned with the welfare of the children, and misguided environmentalists who have mounted a campaign against the new negotiations regardless of the level of unemployment in the US or the EU. It is unlikely the alliance of protectionist unions and the environmentalists in the EU will give up their attack on WTO. In any case, unless such an alliance is persuaded, a new round of multilateral negotiations would be difficult. Though, the fact that they are attacking the WTO is no reason to stop launching another round.

The second argument for a new round usually is that a new and comprehensive round will allow the countries to play off, in the mercantilist tradition of GATT, concessions across sectors and issues and undertake obligations to liberalise long standing

and politically sensitive trade barriers. Certainly, selling any agreement of trade liberalisation that involves a political cost of hurting interests of some groups in a country would be easy if it also involves political gains by benefiting other interests groups in the same county. A second view is that a comprehensive round enables better deal making. The implicit political economy in this reasoning is that trade liberalisation would enable the mobilisation of export interests to offset the pressure from protectionist interests.

As such, the balancing is more likely if several issues form a part of the negotiating agenda. But achieving a politically balanced portfolio through a mercantilist exchange of liberalisation among countries is to be sharply distinguished from welfare gains from trade liberalisation *per se*. For most members of the WTO, and I have in mind developing country members including India, unilateral liberalisation of one or more sectors would bring in net welfare gains without mercantilist exchange of each country's liberalisation with that of another. So, from that perspective also it is clear to me that we do not have to wait for a new round of multilateral trade liberalisation before we need to do what we need to do at home about trade reform. Having said that, on balance, I would opt for a new round that goes beyond the built-in agenda of the Uruguay Round but not so comprehensive that no meaningful agreement can be reached within a reasonable period of time.

In return for agreeing to the start of a new round we should firmly insist that the linkage between trade and labour standards and environmental standards be kept out of the WTO permanently. We should be willing to discuss the issue of labour standards in the ILO. We are signatories to several agreements and we have also ratified several conventions of the ILO. If there are reasons that developed countries feel that the enforcement mechanism of the ILO is not adequate, then we can discuss the strengthening of the enforcement mechanism in the ILO. But we should firmly resist bringing it into the WTO altogether. In my view the Committee on Trade and Environment was a mistake. Admittedly, we had agreed to it in the Marrakesh Agreement, but if there should be a way of winding it up now. It has not done very much damage because it has not made any recommendations for the ministerial council to adopt, but before it does any damage, it should be wound up and the negotiations with respect to environmental matters should be moved on to the UNEP or some other appropriate forum.

There are some structural issues in the WTO that we need to talk about. I shall refer to only one. This is the issue of decision-making and the trade-off between increased participation and organisational efficiency. There has been a proposal that one should create a council or a steering committee within the WTO which will make the decision-making process streamlined and

efficient. I am not entirely sure. But, on the other hand, there are people who want some sort of a Bretton Woods parallel being brought into the WTO. Again, recall that in the Bretton Woods institutions there is weighted voting and certain members are very strong. In the WTO, at least as of now, each member has one vote and the decisions so far have been based on a consensus. This provides a mechanism which gives a greater voice to the developing countries than the mechanisms in the IMF and the World Bank. As such, I would be loathed to give up this arrangement unless there is something better that would protect our interests. Having said that, we should recognise that the trade share of developing countries as a whole in the world is still not that high. So, if countries which account for 60-70 per cent of the world's trade want to have a particular arrangement, it is very difficult for the developing countries as a whole to resist for too long.

Two other issues need to be mentioned. One is that there are structural problems in the dispute settlement mechanism of the WTO. There is no way that the WTO body as a whole can take cognisance of violations if none of the parties affected by violations bring such disputes before the Disputes Settlement Body. So the WTO is not a general policeman type of a system where any deviation is raised and discussed and an appropriate action taken. Imagine if a powerful member of the WTO is violating some of the agreements and this affects one of the weaker

members, and that weaker member has other relations besides trade relations which can be used as a leverage by the powerful member. Then, even though the weaker member perceives a violation of the WTO rules and is affected by that violation, that member may not move the Dispute Settlement Body because that member is trading off what might happen in the WTO with what might happen on other issues. Given these power imbalances, there should be a way by which any serious violation of the WTO rules or agreements is brought before the dispute settlement mechanisms.

The second problem is the lack of resources in dealing with the WTO. Most developing countries do not have the expertise and knowledge and other resources to formulate a case process and bring it before the Disputes Settlement Body, and carry it through. Of course a trust has been established for helping the developing countries, but this is not adequate and structural reforms are needed in the dispute settlement mechanism.

The last issue is anti-dumping. In my view anti-dumping is the analogue of chemical and biological weapons in the armoury of trade policy instruments. We should work for an elimination and not the strengthening of the anti-dumping procedures. If anti-dumping remains a feasible or allowable policy instrument in the WTO arsenal it is not going to help. Developing countries might get the support from some developed countries as

well, such as Japan, to make sure that anti-dumping is taken out of the WTO.

In agriculture, it seems to me that our interests are closer to the interest of the Cairns Group, which has both the developed countries, particularly the US, and developing countries in it. We should align ourselves with the Cairns Group to push for a review of the agricultural agreement. On the issue of how the logjam is going to be broken, it is an interesting issue Mr. Singh has raised here. It seems to me that the existing mechanism does not require a new round necessarily. Discussion can begin on a single undertaking like in the Telecommunication Agreement which was discussed in and by itself. There is no reason why new issues could not be put up in the WTO, and discussed without all of them being altogether in a single undertaking with the launch of a new round. I may be wrong in that, but I think this is possible.

Prof. Anne O. Krueger

Thank you, it is a pleasure to be here, and an honour to be asked to talk about the WTO. I have had a number of very happy visits to India, and on most of those occasions I have given talks about Indian trade policy. This time I have to talk primarily on what is wrong with American trade policy. The tables, I regret to say, are turned.

I agree with a lot of the explanations given here for the failure of the Seattle Meeting. It seems to me that the interest of the developing countries including India in the WTO and GATT is first and foremost in gaining access to international markets. We all agree that the WTO method of ensuring market access is probably mixing horrible economics with good politics. The horrible economics is that if you shoot yourself in the foot by keeping your markets closed, I will shoot myself in the foot by keeping my markets closed. Of course, there is the politics of how we tie the export interests against the import competing interests to enable more trade opening in a political equilibrium.

Now we turn to US policy. US policy in the 1940s and 1950s was very much dominated by foreign policy considerations and, I think probably it is true that in so far as the United States was leading the change it was in its self interest to do so. It is not often recognised that till 1968 the official policy of the American Federation of Labour (AFL) and the Congress of Industrial Organisation (CIO), the major trade unions in the United States, was for free trade. This was only reversed in the late 1960s. Right along they have talked about labour standards and fair trade policies and there is nothing new in it today. What is new is somebody has paid attention to it.

The second thing which I should say is that American trade policy has always been led by the

executive branch. Trade is one of those issues where the executive has taken the lead. In fact foreign policy in general is an area where there has been presidential leadership. President Clinton has a characteristic in general and not just on trade policy that he wants to be all good things to all people. And this it seems to me to have got him into trouble on trade policy.

In my judgement, the US insistence on sector negotiations has not been thought through and has not come from any sound basis. President Clinton has responded to conflicting pressures on these issues by bouncing back and forth. He did the same thing on NAFTA, and this is more important than it may seem. There is a fairly universal agreement that after the Bush Administration negotiated NAFTA it was not brought forward as it should have been within two or three months after the Clinton Administration took office. It would have passed with very little objections. Instead, again, President Clinton sat and did nothing on trade for about ten months. That gave time for the opposition to assemble and begin screaming on labour issues. What the President did at that time was to, if you like, pay lip service to the demands of the labour unions by agreeing to have a side agreement in NAFTA on labour and a side agreement on environment. That “victory” was achieved through the ability to almost stop NAFTA, which has been a troublesome aspect of American trade policy ever since. There were some people, including myself, who questioned

whether giving in that much was a good idea, but it was in a side agreement and it was not in the main agreement. I think it was a grave mistake not to oppose that more strongly but by that time issues were so messed up, that it is very hard to say what might have happened.

Now US politics of trade has also got more complicated. Labour unions in the US as a whole have only 13 million members and there are 110 million people of voting age. Labour Unions by themselves cannot get too far. What has happened in the US in recent years is that all of a sudden the labour unions have become marvellously enthusiastic environmentalists and at the same time suddenly begun caring greatly about child labour and their welfare in other countries in ways that boggle the mind given other aspects of their behaviour. It does seem to me that those of us interested in the trade policy have perhaps, and I include India in this, not been sufficiently aware of the degree to which there are a lot of very well meaning people in countries such as the US who are so rich that they cannot conceive of the need for child labour. And it seems to me there is an educational job to be done to try to break off the well meaning groups who really believe they have the best interest of these constituencies in poor countries in mind, from the interests of labour unions who in my judgement are bringing those groups into a coalition for their own much more narrow purposes.

With that I come to Seattle. The fact that labour standards are not appreciated by developing countries was well known in negotiations in Geneva and even before. On his way to Seattle, President Clinton stopped in San Francisco where he gave a press conference. One of his press aides then informed the USTR that the President had insisted on the inclusion of labour standards in the negotiations and the possibility of linking them to sanctions. She was quoted in the Australian press as having said over the phone "My God he has blown it". This was not anticipated. On the next day, he said that there were thousands of Americans demonstrating in Seattle and this had shown what the American people thought about trade policy. I regard that as a total disaster. As a citizen I thought I had a vote and I did not know I had to go marching to Seattle to show I cared about something. In a way this news sounds so terrible that I think it is good news. It is good news because it will bring in a lot of thoughtful Americans to say that the NGOs are not the mechanism representing society. We have a governmental process and we speak through that. And if there are indeed issues to be resolved at the national level, NGOs are perfectly welcome to express their views and to organise demonstrations. But that they should in some sense be seen as having a separate seat from our government in an international body is nothing short of sheer madness. I think any foreign policy thinker must very quickly have to bring sense on this issue among the policy community in the US.

The labour unions, it seems to me, may have lost because while there will be discussions now on child labour and other emotive issues, there is also going to be more discussion on the NGOs and their role. The issue had to come up and I am not entirely sorry that it did, although I am ashamed that it had to come up in my country. I have seen many articles written by journalists, op-ed pieces in the New York Times, which have been dead on in terms of why NGOs cannot run US policies. And some journalists have even bothered to find out why there might be opposition to child labour and the link with trade in the developing countries.

Now, on other issues, I believe that the timing of the new round was wrong and like so many things in the Clinton Administration it seems to have happened by chance. For a long time the USTR said there would be no new round. There is no 'fast track' legislation in the US right now. The Presidential election is next year and nobody can be surprised by that fact. I think at this stage what we need is some leadership from the White House. I will hope for a little bit more constructive attitude from the European Union and more constructive attitude from others. But I think that basically it is US leadership which must get the negotiations back on track.

The good news is that three of the four presidential candidates are for free trade. They have a very good track record and it seems to me

that there is reason for hope. Every time protection has come up as an issue in the American election, the protectionists have lost; Mondale was the presidential candidate in 1984 when there was a huge recession and high unemployment, but he was soundly defeated. It is not an issue that grabs the electorate. I disagree with T.N. Srinivasan on pursuing individual issues in the WTO because I think we have to tie the issues together precisely for the political economy reasons sketched at the beginning. I cannot think of a better example than telecommunications. The US exempted the four sub sectors of telecommunication in which it had some import competing interests. The whole approach was “no protection in telecom except where the US has problems”. If we negotiated across sectors those too might have stayed open, but more importantly, how are we ever going to get anything on things like maritime services. Maritime is something where US protectionist interests are very strong. If we don't have something on the opposite side as for example, telecom, where we are strong in exporting, how are we going to get the political balance domestically on which to fight that? Even the issue of movement of natural persons is an area where the American labour unions and the EU labour unions are going to resist. We need offsetting issues to get the US to negotiate.

Aviation and finance are areas where there is a lot to be done. On aviation, my guess is we would all gain substantially, and there will be probably

very few net losers if we can judge by what happened to the US aviation. I think again it will take some pressure and some trade-off and I would guess there is some scope for manoeuvre between finance and aviation, on the one side, and natural persons and maritime, on the other.

I would hope that there will be something on anti-dumping. I agree with T.N. that it is getting terrible and getting worse. And it seems to me that we ought to have something on the WTO process and something on a *de minimis* clause. I would hope that we would get rid of this completely but I am afraid that is a political non-starter in too many countries. Too many politicians are trapped in and it will not be possible to get any coalition to be able to tackle this issue, although I will welcome if something came out of it.

I would hope for a strengthening of the WTO secretariat, and doing it in such a way that it does provide some technical assistance and support for developing countries. Not for countries such as India which has a very large number of highly qualified people, but for sub-Saharan African countries and central Asian countries where they really do not have the personnel who understand the existing agreements.

There is lots to be done on agriculture so that preferential trading arrangements have less potential for discrimination. On every one of these issues, there are identifiable losses and gains for

each country with big gains in the longer term, but if we do not have negotiation across issues I doubt that we could make very much progress.

I hope that American politics will turn better. I happen to think that there is something funny going on right now in terms of both labour unions, and in particular steel workers, who for some reason, have managed to get disproportionate influence in trade policy issues over the past two and a half years. This has to take a turn for the better. Elections next year could also bring good news in terms of better sense prevailing. The fiasco in Seattle basically should result in some serious thinking on issues which are important for the world and for the US.

Mr. B.K. Zutshi

I am privileged to be here this afternoon. I am in the happy position of not having been associated with the Government of India in the decision-making relating to the negotiations which broke down in Seattle. Nor am I any longer associated with the actual negotiating process. I have been observing the developments as an interested person with some knowledge and understanding of the issues, as also some knowledge of the negotiating process at the WTO. In retrospect it seems to me that the venue and timing of this meeting itself led to its failure. As has been observed here by other speakers, given the election in the US, having the meeting in Seattle was perhaps not a good idea.

Even otherwise in an election year in the US, with political parties already in an election mood, it is very difficult to have a consensus on issues. As a matter of fact during the negotiations in the Uruguay Round there were two structural impediments in resolving issues and negotiating quickly. (i) The first one relates to the US constitutional scheme of division of power and responsibility between the Congress and the Executive, in which trade policy is the sphere of responsibility of the Congress and is only delegated to the executive. As a matter of fact the Uruguay Round negotiations were delayed by two years because the US Trade Representative was not able to get negotiating authority from the U.S. congress. That is the present position also. (ii) There is another problem within the EU in as much as for them to come to any conclusion, they have to go through a mini-negotiation themselves. As a matter of fact it is a mini multilateral negotiation within the EU. They either do not have a position most of the time when negotiations are on, and when they do have a position, they have a position which is so carefully negotiated that they can't depart from it. This is why the Brussels negotiations failed in 1991. There is some kind of a parallel between the way negotiations came to nothing in Brussels and what happened in Seattle.

Obviously from our point of view the best solution would have been for this round to have been launched on the basis of the in-built agenda plus negotiations on market access, and some

improvement in rules. That has not happened. The question is, how we can now, in the post-Seattle period, build some type of consensus on the basis of which it is worth launching a round. Apart from covering agriculture and services and other parts of the built-in agenda, the round should facilitate negotiations on market access for manufactures and tariff reduction. I am personally of the view that it may be difficult to do so. In any case the negotiations may not pick up for another year or so because if the Europeans have to give on agriculture they have to get something in return, which they can hope to get only if the scope of the round is enhanced and not confined to these three areas.

Two challenges have been thrown up before the WTO now. One is its own decision-making process. A second is what kind of participation if at all of “civil society” as represented by the NGOs has to be ensured in order that we don’t see the things which happened in Seattle. As far as the decision-making process within the WTO is concerned it is very easy to say that the process has to be efficient as well as participatory. But then we are talking about participation of 134 members. It is very difficult to have a process in which each member is involved as much and in the same way as any other member. As a matter of fact during the WTO negotiations in the Uruguay Round, a serious view was expressed by developed countries that decision-making should be confined to a Board of Trade within the organisation which

should have its structure more or less based on the present structure of the UN Security Council, i.e., a set up of permanent members and other members by election on a rotational basis. This was successfully resisted. But if we lay too much emphasis on participation of every member, I am sure that particular idea is going to be revived. That would be the worst possible outcome for the developing countries. Today each developing country member has got the same weight as far as vote is concerned. Therefore we need some kind of a process which goes in concentric circles. That was the process which was invoked through the 'Green Room' process. The biggest challenge before the WTO now is to evolve a process which is seen by people to be transparent as well as efficient and effective.

The other issue of course is that of participation of the NGOs. This started when the Uruguay Round was already on. The first move was made by the World Wildlife Fund (WWF). WTO/GATT is a victim of its own success, and the success I refer to is the success of the dispute settlement mechanism. This I say because it is the perception of all kinds of interests, and some of them with convictions they hold very dear to them, that they can enforce obligations on governments on areas outside trade through the mechanism of the WTO because it is an effective system and can use trade sanctions for enforcement of obligations. As a matter of fact I was surprised that President

Clinton himself said that he wanted to use trade sanctions for enforcement of labour rights.

There is great danger in accepting any intrusion of non-trading issues, particularly those relating to child labour, and labour standards, because they will be used, even if that is not the intention for protectionist purposes. For the rest, I think we should agree to negotiate and participate in negotiations on all issues. The only issue on which I think we must resist and we have to build a consensus not only with developing countries but also developed countries who are not in favour of including labour standards or child labour issues is the trade and social standards linkage. We should resist the intrusion of these on the agenda of the WTO.