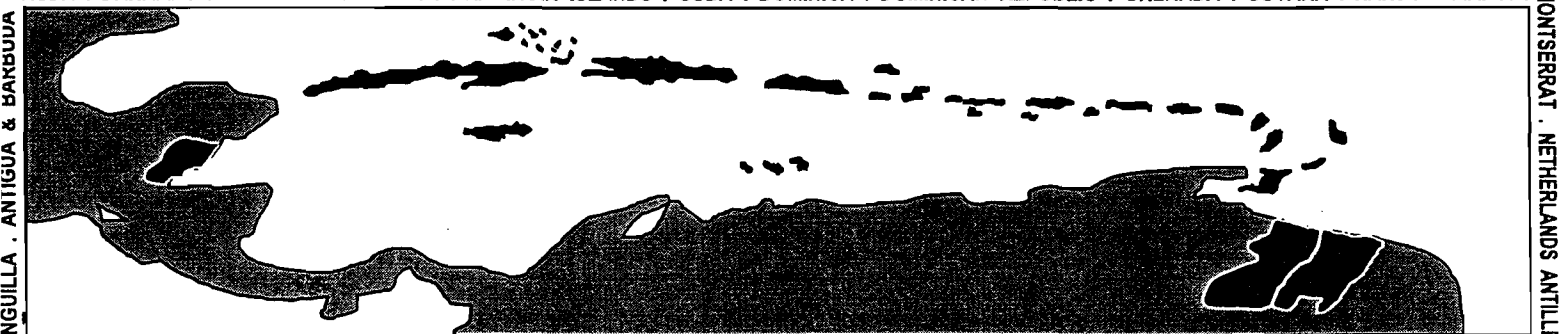




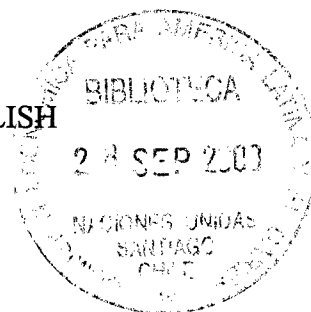
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## **THE FAILURE OF SEATTLE AND ITS IMPLICATIONS**



**UNITED NATIONS**  
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Subregional Headquarters for the Caribbean

**CARIBBEAN DEVELOPMENT AND COOPERATION COMMITTEE**



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## **Executive Summary**

This paper examines the evolution of the positions of developing countries on the General Agreement on Tariffs and Trade (GATT). It reviews recent trends in international trade, the Uruguay Round agreements and their implementation, emphasizing some of the issues of concern advanced by the members of the World Trade Organization (WTO), in particular the developing countries.

Different trade policies, which ranged from import substitution to export orientation, were adopted by developing countries since the 1960s. The real life experience of success in South East Asia and the general failure of the import substitution strategies were powerful arguments against the pursuit of import substitution and pushed many countries to emulate the example of the successful countries. In addition, many developing countries implemented structural adjustment programmes, which were supervised by the World Bank and the International Monetary Fund (IMF) in the 1980s. These programmes invariably included trade reforms, which sought to reduce bias against exports and create a viable and efficient productive sector. It was during this period that many trade agreements were signed and others, which were long dormant, revived. Multilateral and bilateral agreements were concluded in Latin America and the Caribbean and in other parts of the world.

Recent trends in international trade show that world trade has been growing substantially over recent years and outpacing growth in income in every year. Although all the GATT rounds of multilateral trade negotiations reduced tariffs on industrial products, there is still wide scope for further liberalization, noting that liberalization in services, agriculture and textiles has barely started.

Developing countries viewed GATT from its inception as an instrument for the promotion of the interests of developed countries. However, in the 1980s the positions of these countries on GATT changed from outright opposition to enthusiastic support. A more liberal trading system was seen as essential for the success of economic reforms, including trade reforms, which many developing countries were implementing at the time. Thus, this led to the active participation of developing countries in the Uruguay Round of trade negotiations. The successful conclusion of the Uruguay Round and the establishment of the WTO reflected the widespread agreement of both developed and developing countries that a more open, predictable and rule-based multilateral trade agreement was necessary and mutually beneficial.

In the build-up to Seattle, there were diverging concerns and positions expressed by participating countries. Intense campaigns were launched by various powerful interest groups against trade liberalization, which made it very difficult for an agenda to be agreed on in Seattle for a new round of multilateral trade negotiations. There were many issues surrounding the failure of the Seattle Ministerial Conference, including the following: unfair competition from low-wage developing countries; dissatisfaction with the implementation of the agreement; the dispute settlement mechanism; trade-related investment measures; and the time given to the implementation of the various agreements. Some of the possible implications of the failure of the conference are: the probable slowing down of the further liberalization in agriculture and textiles and the increased use or intensification of the use of antidumping and safeguard measures by developed countries among themselves and against imports from developing countries.

The failure to start these negotiations may lead to increased protectionism, increased unilateral trade actions, decrease in technical assistance or strengthened conditionalities for such assistance and increased pressure on the developing countries to give in to the demands of the developed countries.



## **THE FAILURE OF SEATTLE AND ITS IMPLICATIONS**

The failure of the World Trade Organization (WTO) Third Ministerial Meeting, held in Seattle at the end of 1999, to launch a millennium round of trade negotiations or even to agree on an agenda, however modest, that would continue the process of trade liberalisation under the WTO is significant in many respects and could have various implications for international trade rules and world trade. This failure could mark the return to protectionism or lead to the continuation of trade liberalisation through regional and bilateral trade agreements which are both inferior options to multilateral trade negotiations in the WTO. This paper examines the evolution of the positions of developing countries on the General Agreement on Tariffs and Trade (GATT) over the years and reviews the recent trends in international trade, the Uruguay Round agreements and their implementation, emphasizing some of the issues of concern advanced by the WTO members, in particular the developing countries including the Caribbean. The paper also briefly examines the future of trade negotiations .

### **From import substitution to export orientation**

After independence, developing countries tended to implement restrictive trade policies characterised by extensive protection and the associated import substitution approach to industrial development, which many of them adopted. This approach was based on the existence of market rigidities in those countries and the need for intervention in the form of planning processes and administrative control to steer the economies into the direction of industrial, economic and social development. The infant industry argument played a major role in this approach, justifying that the newly-created industries were initially uncompetitive, but that temporary protection would increase their competitiveness.

Complex systems of tariffs, quotas, licensing requirements, exchange rates restrictions and various administrative rules and procedures were put in place with a view to establishing a viable indigenous industrial sector. Governments intervened heavily in the planning of industrial development and were in fact directly running large parts of these countries' industrial and trade entities. At the same time, these countries sought and secured access to the markets of industrial countries through the establishment of various preferential schemes, such as the European Union/African Caribbean Pacific (EU/ACP) Lomé Convention and the GSPs of the industrial countries, based on the argument still being advanced today that the international trading system was unfair to developing countries and that gains from trade were biased against them. The export industries of developing countries could not survive and their development strategies could not succeed without these preferences. The rationale for these preferences was later incorporated into the GATT.

The end result of this asymmetrical treatment of developing countries and the policies which they implemented was a generally high level of protection. Even with the rapid growth and extensive use of non-tariff barriers in the developed countries in the 1970s, protection in developing countries remained higher than in developed countries<sup>1</sup>. This high level of protection resulted in currency overvaluation and a bias in the trade regime against exports. Since the protection was mainly for the manufacturing sector, this produced a bias against agricultural production and contributed to the general decline of that sector in many developing countries.

In addition to the many inefficiencies introduced by heavy government intervention and high levels of protection, the lack of competition made the limited domestic market more profitable and constrained the growth of exports, in general. The lower tariff rates on capital goods tended to favour the establishment of capital-intensive industries at the expense of labour-intensive industries, which, a priori, held a greater potential for success in these countries. The levels of effective protection among different sectors and industries resulted in the misallocation and inefficient use of resources. The bias towards the industrial sector shifted income towards that sector and may have contributed to a worsening of the income distribution in many developing countries<sup>2</sup> where the majority of people live in rural areas.

The import substitution model of industrial development did reduce the level of imports in many developing countries, such as Argentina, Brazil, Pakistan and the Philippines, and build an industrial capacity in these countries. This development contributed to increased employment and income. In many other countries, the strategy adopted was not very successful and even in those countries where industrial capacity was developed as a result of this strategy, it proved to be inefficient and costly both to the national budget and domestic consumers.

One of the contributing factors to the budget and balance of payments deficits of many developing countries was the costly support provided for industries which were not viable and the involvement of the State in loss-making production ventures. The balance of payments and fiscal deficits led to the borrowing of the 1970s and the debt crisis of the 1980s when interest rates rose and prices of primary commodities declined. These events led to the implementation of structural adjustment policies in many countries, including trade reforms which liberalised imports progressively and which were geared towards the development of efficient production, capable of withstanding the competition on domestic and international markets.

Some developing countries, mainly those of South East Asia (Hong Kong, Singapore, South Korea and Taiwan), implemented generally more outward-oriented trade policies, which resulted in high and sustained rates of growth, high levels of employment and generally higher standards of living for their people. The trade policies of these countries which, although differing widely, sought to reduce bias against exports by reducing import protection and providing various incentives for exports. They also adopted a flexible approach to their exchange rate regimes, devaluing their currencies when necessary. Measures to ensure that factor prices allowed for specialisation according to comparative advantage were also part of the policies implemented.

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<sup>1</sup> Laird, Sam and J. Michael Finger (1986), Protection in developed and developing countries: An overview, Mimeo.

<sup>2</sup> See Little, Scitovsky and Scott, 1970.

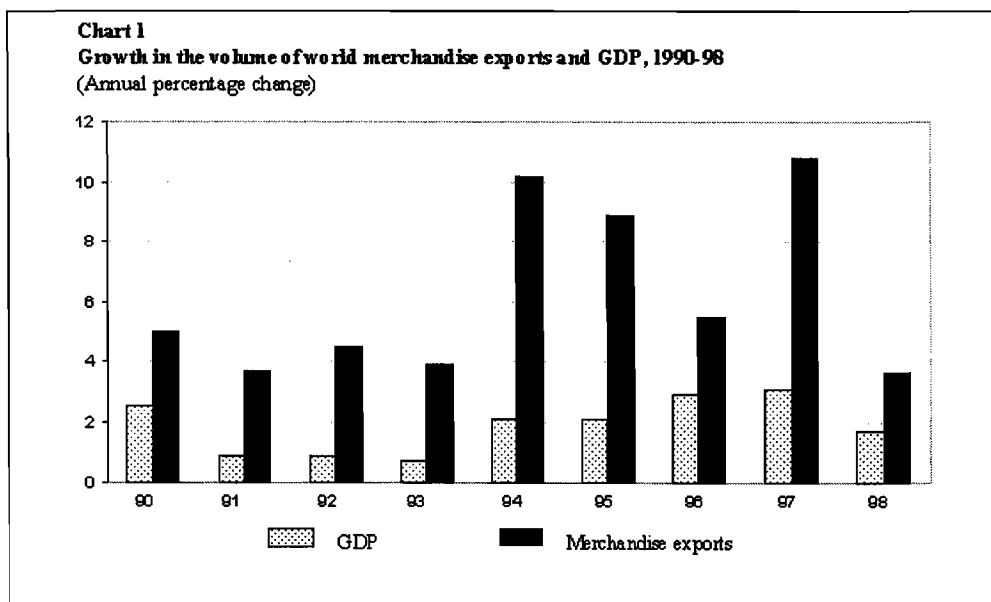


This real life experience of success and the general failure of the import substitution strategies were powerful arguments against the pursuit of import substitution and induced many countries to emulate the example of the successful countries. In addition, the macroeconomic disequilibria, which many countries experienced, led to the implementation in these countries of structural adjustment programmes supervised by the International Monetary Fund (IMF) and the World Bank. These programmes invariably included trade reforms which sought to reduce bias against exports and create a viable and efficient productive sector. These structural adjustment programmes strengthened the move towards more open economies.

It was during this period that many trade agreements were signed and others which were long dormant were revived. The distinguishing characteristic of these agreements was that their coverage was extended to services and investment, in addition to the traditional, limited lists of goods. These agreements were also generally more oriented towards the promotion of exports and integration in the international trading system than they were towards the protection of import substitution production. In the Western Hemisphere, the North American Free Trade Agreement (NAFTA) and the Southern Cone Common Market (MERCOSUR) were established and the Central American Common Market (CACM), the Caribbean Community (CARICOM) and the Andean Pact were given new impetus and deepened further. In addition to these multilateral agreements, numerous bilateral agreements were concluded in Latin America and the Caribbean, as well as in other parts of the world.

### Recent trends in international trade

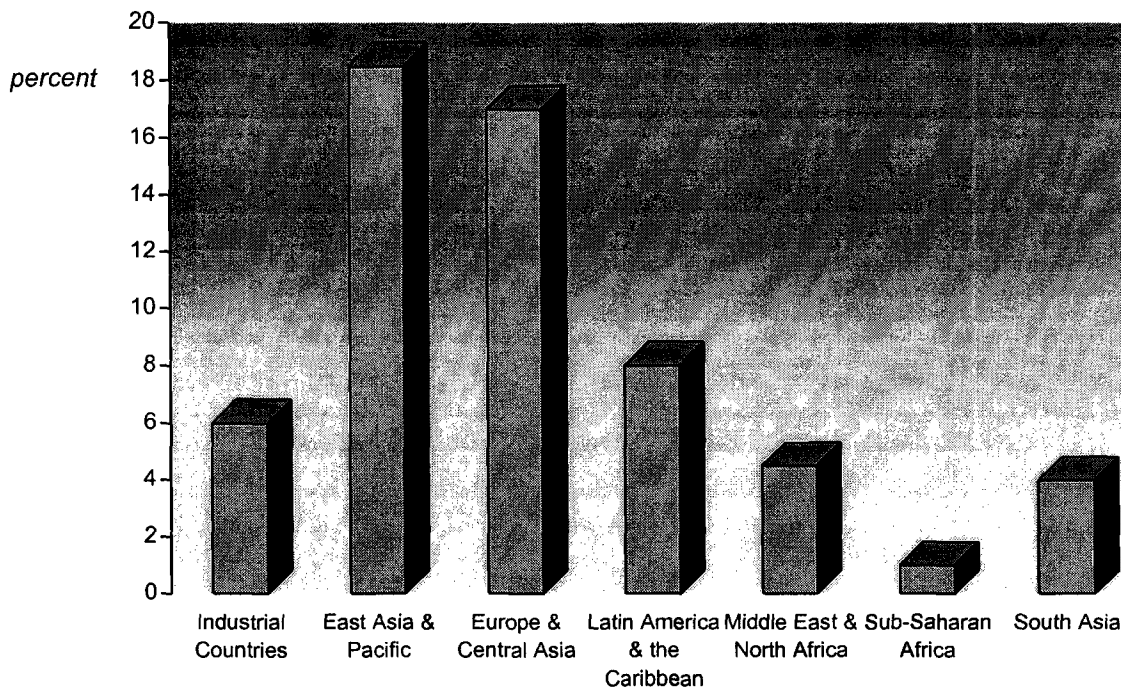
World trade has been growing substantially over recent years outpacing growth in income in every year. The volume of world merchandise exports has constantly outpaced the growth in world output in the 1990s (see chart below).



Source: World Trade Organization

Also, exports have constituted an increasing share of national income moving from 8 per cent of GDP in 1950 to 26.4 per cent in 1998. The liberalisation efforts over the past 50 years under the GATT have contributed to this growth and, indeed, to the rise of incomes around the world generally<sup>3</sup>. The rise of exports has, in turn, been linked to trade liberalisation<sup>4</sup>. This is not, however, a straightforward relationship since trade liberalisation is not enough by itself to bring about increased growth. Other factors including institutional capacity, social structures, resource endowment, macroeconomic stability, investment and savings, among others, also have important implications for growth. However open trading regimes which give similar incentives to exports and production for local markets tend to be more conducive to growth than restrictive ones. More outward- oriented economies have generally grown faster than those with more restrictive trade regimes<sup>5</sup>.

**Annual growth rate of exports of commercial services, 1990-97**



**Source: WTO, Annual Report, various years**

<sup>3</sup> Many studies have found causal links between export performance and economic growth. See Michaely, M. 9(1977) 'Exports and growth: An empirical investigation', *Journal of Development Economics*, Amsterdam, 4, Pages 49-53 and Belassa. B et al. (1982) 'Development strategies in semi-industrial economies' Baltimore, Johns Hopkins University Press.

<sup>4</sup> Bhagwati, Jagdish, Export Promoting strategy: Issues and evidence in *World Bank Research Observer* 3, 1988.

<sup>5</sup> See Greenway, D and al (1989) "Empirical evidence on trade orientation and economic performance in developing countries" CREDIT Working Paper 89/3 University of Nottingham and also IMF (1997) "World Economic Outlook".

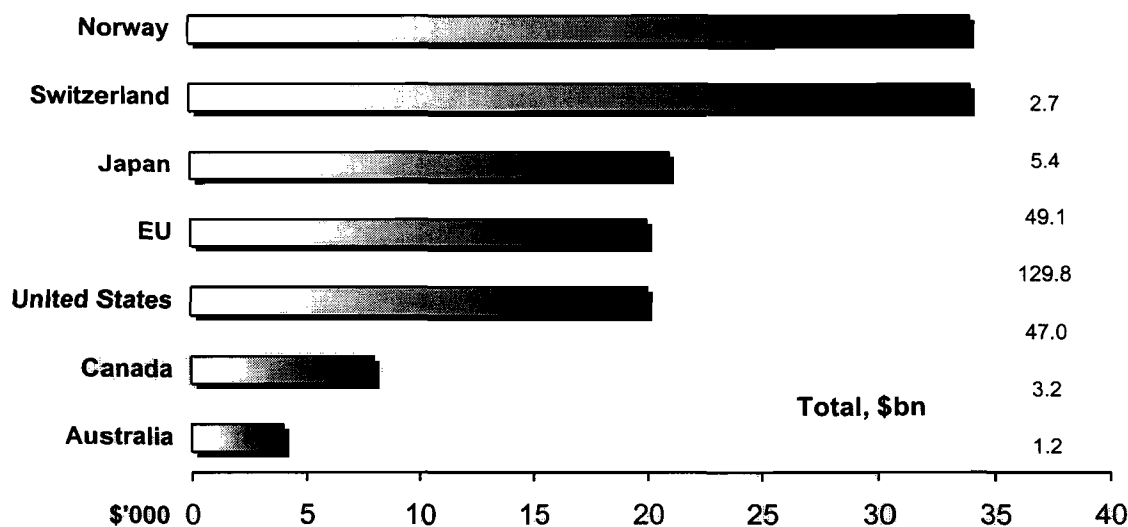
The volume of exports has been increasing by 5 per cent, on average, for each region of the world. In the process, there have been significant shifts in the structure of exports with many developing countries increasing their share of exports of manufactured goods. There have also been substantial increases in the exports of services. Commercial services have increased substantially in the 1990s in all the regions of the world, except sub-Saharan Africa (see figure above).

Although all the GATT rounds of trade negotiations reduced tariffs on industrial products there is still wide scope for further liberalisation. While average tariffs have fallen substantially, there are still high tariff peaks in both industrial and developing countries. Tariffs of 100 per cent in developed countries and 125 per cent in developing countries are still being applied for specific industrial products. The share of imports still highly protected is of 20 per cent for developed countries and 60 per cent for developing countries<sup>6</sup>.

Liberalisation in services, agriculture and textiles has barely started. The agreement in the services sector is a framework for liberalisation under which the countries choose the sector to liberalise and the extent of the liberalisation. Agricultural markets will remain highly protected even after the full implementation of the present agreement on agriculture (see the chart below on subsidies). The textiles market is expected to be fully liberalised by the year 2005 but most of that liberalisation (49 per cent) is scheduled to take place in that year.

### Agricultural Subsidies

#### Producer support, per farmer, 1998 estimate



Source: OECD

<sup>6</sup> See WTO, 1998.

## **Evolution of developing countries' positions on GATT**

From its inception, the GATT was viewed, by developing countries, as an instrument for the promotion of the interests of developed countries. It was, therefore, perceived to be biased against their interests and development needs. This was the view of the few developing countries<sup>7</sup> which took part in the original meeting of the contracting parties to consider the United States' Proposals for the Expansion of World Trade and Employment and the charter for an International Trade Organization. In those early days, the demands of the developing countries, not unlike those of today, included the provision of trade preferences and exemptions from various commitments, including the binding of tariffs and the prohibition of the use of quantitative restrictions. These demands were deemed necessary for the countries to adequately plan and successfully implement their development programmes.

The demands of developing countries were generally acceded to, but since these exemptions and preferences were limited in time, they were deemed inadequate to support their import substitution strategies for industrialisation. A chapter on the stabilisation of commodity prices was introduced into the Charter of the International Trade Organization (ITO) which was to be created. In the event, the ITO was never established, but the GATT, which provided the rules for the organization, came into force provisionally and included references to government assistance to economic development. From then until the early 1960s, developing countries showed little interest in the GATT. In 1965, Part IV of the GATT entitled "trade and development" was introduced thanks largely to concerted actions by developing countries. In the preceding year, the United Nations Conference on Trade and Development (UNCTAD) was established with the purpose of articulating the concerns of developing countries in the area of trade and the links between trade and development.

Part IV of the Treaty responded to developing countries' demands for differential and more favourable treatment. The developing countries, while enjoying greater market access abroad, were exempted from giving access to their own markets. In 1979, another part of the demand of developing countries was introduced in the GATT in the form of the enabling clause of the Tokyo Round, which granted a waiver from Most Favoured Nation (MFN) treatment with respect to preferences given to developing countries. In the meantime, sectors of major importance to developing countries, such as textiles and agriculture, were exempted from international trade rules of the GATT. These sectors were not brought under the trade rules mainly because developing countries were at the time giving higher priority to the development of their manufacturing sector and the obtention of preferential and differential treatment.

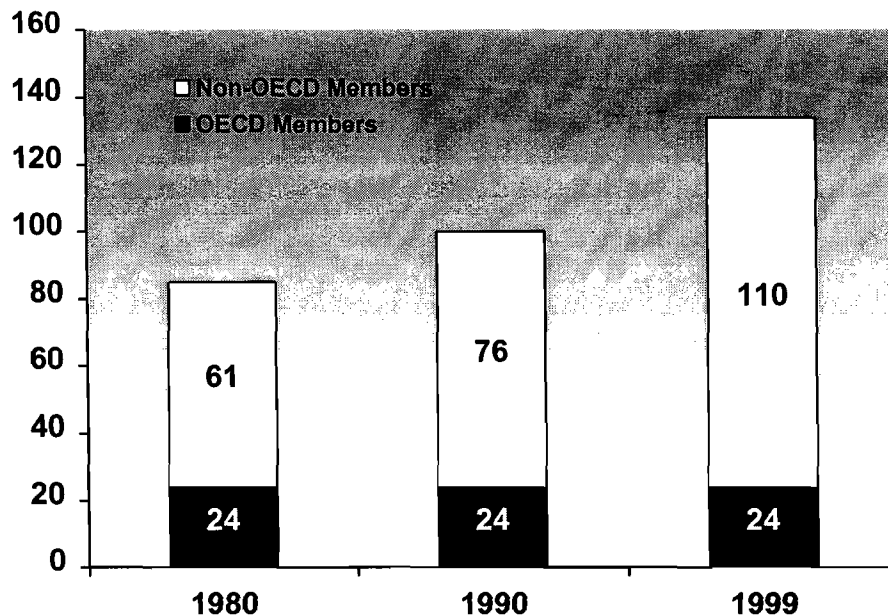
The position adopted by developing countries towards GATT changed from outright opposition in the 1960s and 1970s to enthusiastic support for many of them in the 1980s. This fundamental change was partly due to the diminishing attractiveness of the import substitution strategies to development and the success of the Asian countries, which altered the perception of development and trade strategies in many countries. A more liberal trading system was seen as essential for the success of the economic reforms, including trade reforms which many developing countries were implementing at the time. In addition to the objective of better market access, these countries also thought that a multilateral system with a dispute settlement

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<sup>7</sup> These countries included India, Brazil, China and Cuba.

mechanism would constitute a counterbalance to the power of the developed countries and their frequent use of unilateral actions in trade disputes. This new attitude led to the active participation of developing countries in the Uruguay Round of multilateral trade negotiations (see below membership of GATT/ WTO).

**Number of GATT/WTO member countries**



Source: WTO, Annual Report, various years.

The Uruguay Round of trade negotiations in which many developing countries participated actively was concluded with the signature of the Final Act in Marrakech, Morocco, in April 1994. One hundred and twenty five countries participated in these negotiations; more countries than in any of the previous rounds. The new agreement brought new issues, such as services, Trade Related Investment Measures (TRIMs) and intellectual property rights under the disciplines of international trade rules. In addition, it reduced tariffs and non-tariff barriers in trade in goods and brought agriculture and textiles under the GATT. A major achievement of the new agreement was the strengthening of the dispute settlement mechanism and the introduction of more transparency in international trade rules through the system of notification and the regular reports of the Trade Policy Review Mechanism.

To strengthen fairness in international trade, antidumping and countervailing duties were strengthened to minimise the effects of unfair competition. Safeguard measures were allowed to counter the disruptive effects of a surge in imports. The new agreement further tightened the rules on the investigations and implementation of these trade remedies. The agreed liberalisation and the implementation of the various agreements were to be spread over 10 years. The developing countries were generally given more time to implement the agreements and were

allowed smaller commitments. In addition, the agreement contains sections for the provision of assistance to developing countries by developed countries, not only in the implementation of the various agreements but, also, to support their development efforts, in general.

The Marrakech agreement also established the WTO, entrusted with the task of monitoring the implementation of the Uruguay Round agreement and generally providing the institutional framework for the conduct of trade relations among its member countries. The successful conclusion of the Uruguay Round and the establishment of the WTO reflected the widespread agreement of both developed and developing countries that a more open, predictable and rules-based multilateral trade agreement was necessary and mutually beneficial.

Since the conclusion of the round, agreements have been concluded in information technology, basic telecommunications and financial services, reflecting the commitment of countries around the world to further liberalisation. This commitment was further reflected in the agreement to commence negotiations on a built-in agenda on agriculture in 1999 and on services in the year 2000. Negotiations on other areas, such as "competition policy" and "government procurement", were scheduled to start later and suggestions were made in the build up to the Seattle conference to launch a new round of multilateral trade negotiations, which will not only cover the built-in agenda but also extend and deepen the existing agreements as well as conclude new ones.

### **The build-up to Seattle**

Apart from agriculture and services and the review of the agreement on Intellectual Property Rights, there were diverging views as to the issues which were to be included in the proposed new round of negotiations. The United States was putting forward a number of issues, including the phasing out of tariffs in several sectors i.e. chemical, energy products, environmental products, medical and scientific equipment, fish and toys and the further liberalisation of trade in information technology and the reform of the dispute settlement mechanism. In addition, that country proposed the monitoring of the environmental impact of trade and the creation of a committee on trade and labour to ensure that liberalisation did not lead to job losses and the lowering of wages. The United States and the Cairns Group<sup>8</sup> proposed the further liberalisation of the agricultural sector, while the European Union was not very keen on discussing the dismantling of agricultural subsidies but wanted issues, such as investment and competition policy, to be among the subjects to be discussed in the new round.

The developing countries, although not a homogeneous group by any means, wanted to focus the discussion on the issues of special and differential treatment and the difficulties encountered in implementing the existing WTO agreements. They also proposed the inclusion of further liberalisation of agriculture and textiles. The United States and the European Union were proposing to incorporate labour standards into the trade negotiations in the face of opposition from developing countries. Although the negotiations in the area of services were agreed upon in

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<sup>8</sup> The following countries are members of the Cairns Group: Australia, New Zealand, Brazil, Canada, Chile, Fiji, Colombia, Indonesia, Malaysia, Hungary, Thailand, Uruguay, The Philippines and Argentina.

general terms, there were various proposals for assigning priority to certain areas rather than others. The United States was proposing further liberalisation of financial services, basic telecommunications and transportation, except shipping. Developing countries wanted more focus to be put on the negotiations on the movement of natural persons. This focus was generally opposed by the United States and the European Union.

The divergent concerns and positions of the participating countries, which is barely alluded to here, and the intense campaign launched by various powerful interest groups against trade liberalisation made it very difficult for an agenda to be agreed on in Seattle for a new round of trade negotiations.

### **The failure of the Seattle Ministerial Conference**

Trade liberalisation has generally required major economic and social adjustments for both developed and developing countries. These constant adjustments, which are the results of changing resource allocations, are seen by major interests in these countries as mostly unacceptable costs.

The widening gap between the wages of skilled and unskilled workers in developed countries, especially the United States and the United Kingdom, and increased unemployment in other countries with less flexible labour markets, such as France and Germany, are usually blamed on international trade, particularly the increased imports from developing countries. For these imports to be responsible for worsening wage inequality and unemployment, the prices of low skill-intensive products would have fallen compared with the prices of products requiring higher skills.

When factor supply is fixed, this will eventually lead to changes in factor prices and a decline in the earnings of low-skilled workers.<sup>9</sup> It appears that the opposite has happened: high skill-intensive products prices have fallen compared to those of low skill-intensive products in both the United States and Europe<sup>10</sup>. In addition, the imports from developing countries are still too small to have these effects on domestic prices and factor markets. The advances in technology and the consequent increase in demand for high-skilled workers are the major factors behind increased wage inequality in the developed countries, while international trade pressures generally play a minor role.

Similar forces are at play in the developing countries where the demand for higher levels of skills is increasing at the expense of low skills. The higher-skilled workers tend to move to the tradable sector, while the low-level skilled workers tend to remain in the non-tradable sector,

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<sup>9</sup> This is the process which should take place according to the Stolper-Samuelson theorem, See Wolfgang F. Stolper and Paul A. Samuelson (1941) "Protection and real wages" *Review of Economic Studies*, Vol. 9.

<sup>10</sup> For the United States see Lawrence Robert and Slaughter (1993) "International trade and American wages in the 1980s: Giant sucking sound or small hiccup" *Brookings Papers on Economic Activity: Microeconomics*1; For Europe see Neven, Damien and Charles Wyplosz (1996) "Relative prices, trade and restructuring in European industry" *Center for Economic Policy Research working paper n° 1451*.

such as construction and transportation. The negative effects of trade liberalisation on poverty is ambiguous, at best. The protectionist policies in many developing countries in the past have not created the number of jobs necessary to absorb the increasing number of job seekers in those countries. In addition, the protection policies in developed countries on industries, such as textiles and garments, tended to decrease job opportunities in many developing countries and contribute to increased poverty in those countries.

Sustained growth rates linked to open trading regimes have generally decreased poverty. Growth has facilitated increased fiscal revenues at moderate tax rates to finance basic infrastructure, health and education, among others. Poverty reduction and an improved standard of living achieved by those countries, which oriented their economies towards world trade, have been remarkable. The Asian countries of Singapore, South Korea and Taiwan and, more recently, Malaysia, Thailand and Indonesia managed to significantly decrease their levels of poverty. Despite these experiences, further trade liberalisation was portrayed as being of very little benefit to developing countries<sup>11</sup> and could only result in lowering incomes, increasing unemployment, marginalisation and poverty and destroying the environment. Although there is little evidence of the purported links between trade liberalisation and these negative effects<sup>12</sup>, the proponents of this thesis continue to present it as though it was self-evident.

Another contributing factor to the failure of the conference was the general dissatisfaction with the implementation of the WTO agreement. Developed countries were unhappy about the functioning of the Dispute Settlement Mechanism. Dissatisfaction was expressed especially with some of its rulings. The dolphin, tuna and the shrimp turtle decisions both went against the United States over its legislation to deny market access to tuna caught in purse seine nets and shrimps harvested without turtle excluding devices. The finding against the United States that the Foreign Sales Companies were forms of subsidies, which went against the rules of international trade, was not well received in that country. Also the beef hormone dispute and the EU banana regime which went against the European Union were another source of dissatisfaction.

Developing countries, including those of the Caribbean, were also generally dissatisfied with the implementation of the Uruguay Round agreement<sup>13</sup>. They contended that the developed countries did not implement the aspects of the agreement which were most beneficial to them i.e. technological transfers and the provision of technical assistance. They also articulated the difficulties encountered in implementing the agreements, because of their weak financial and human resources base and the complexity of some of the agreements. More specifically, dissatisfaction was expressed about market access in the area of agriculture and textiles whose liberalisation was limited, in any case, under the round. This is of course especially important for the countries whose main exports are textiles and agriculture, not those of the Caribbean which

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<sup>11</sup> This position is also widely spread in the developed countries.

<sup>12</sup> For a discussion of these issues see Bhagwati and Srinivasan, *Trade and the Environment: Does environmental diversity detract from the case for free trade?* And Dusilla K. B., A. v. Deardorff, and Robert M. Stern, *International labour Standards and Trade: A theoretical Analysis* in *Fair Trade and Harmonisation, Prerequisite for free trade*, Editors: J. Bhagwati and R. Hudec, The MIT Press, 1997.

<sup>13</sup> Information in this section was taken out of submissions made by various countries to the General Council of the WTO in preparation for the Seattle Conference.



in fact benefit from the restrictions in those two sectors and will lose the preferences which they enjoy at present if these sectors are fully liberalised. In anticipation of this outcome, a group of small countries, including those of the Caribbean, have requested that consideration be given to the provision of technical assistance and concessional loans to upgrade or rationalise their production in the agriculture and textiles sectors.

Another important area of dissatisfaction for developing countries was related to the time given to the implementation of the various agreements. This was invariably found to be too short and not sufficient for the implementation of an agreement of such complexity, given the countries' levels of development. For example, the five additional years given for the implementation of the agreement on Intellectual Property Rights was not considered sufficient for countries, which had to start from scratch in this relatively new area i.e. the drafting of the new legislation etc.

Trade-related investment measures constitute another area of concern in that the agreement was viewed as a constraint on the promotion of investment required for the development needs of the countries in question. Trade balancing and minimum content requirements are both outlawed under the agreement. In addition, technical barriers to trade and sanitary and phytosanitary measures were thought to have been implemented against developing countries' interests, since the rules were usually set without their participation. The implementation of these agreements proved to be difficult because of the limited financial and human resources capabilities. The use of antidumping and countervailing duties and the effective access to the dispute settlement mechanism were other areas of concern for developing countries, which needed to be addressed.

### **Some possible implications of the failure of the conference**

The articulation of the various concerns and positions in the run up to the conference was not well served by the failure of Seattle. In fact the opposite may have happened. The failure of Seattle may have resulted in slowing down the further liberalisation in agriculture and textiles and the increased use or intensification of the use of antidumping and safeguard measures by developed countries among themselves and against imports from developing countries. It may also result in less credibility for the dispute settlement mechanism, with the more powerful imposing their will on the less powerful, which could lead to the further marginalisation of some countries mostly in the developing world.

It may also lead to environment and labour issues being unilaterally introduced into international trade rules by the developed countries. The introduction of these issues has long been opposed by developing countries. Other issues not covered in WTO may also be implemented to restrict access of the developing countries to the markets of developed countries. The loss of momentum in the international trade agenda may lead to the slowdown of liberalisation initiatives in textiles, agriculture and services, which developing countries are eager to start and which, if successfully completed, will be of great benefit to them. On the other

hand, such action may lead to the slowdown in the erosion of preferences presently enjoyed by these countries and allow them more time to prepare for further trade liberalisation.

The stalling of multilateral trade negotiations under the auspices of the WTO is unlikely to lead to the continuation of trade liberalisation through unilateral policy actions, given the long standing mercantilist principles which have always underpinned the process. Markets are open in exchange for the opening of other markets. This means that the failure of Seattle may accelerate the trend, which was apparent during in the 1990s, by giving greater impetus to integration activities in the various regional and subregional trading arrangements.

The failure of Seattle may also give a boost to the conclusion of new bilateral trade agreements, such as those recently concluded between the EU and South Africa and the EU and Mexico, and lead to the establishment of trading linkages among the various trading agreements. Although all these initiatives tend to strengthen trade liberalisation, they are much less efficient than multilateral liberalisation, mainly because of the margin of preferences given to member countries, which may lead to limitation of market access and the possibility of trade diversion.

### **Conclusion**

Seemingly irreconcilable differences can be resolved as they have been before at the start of the Uruguay Round of trade negotiations and in the course of the negotiations of that round. The articulation of common ground for the further trade negotiations in the WTO is in the interest of all the members of that organization, particularly the developing countries which have more to gain from a rules-based international trading system.

Failure to start these negotiations may lead to increased protectionism, increased unilateral trade actions, decrease in technical assistance or strengthened conditionalities for such assistance and increased pressure on the developing countries to give in to the demands of the developed countries.

The bilateral and regional trade negotiations which might intensify as a result of the failure of Seattle should not detract from the pursuit of consultations to agree on an agenda for the eventual continuation of multilateral trade talks under the WTO, as this is the only forum in which the concerns of all the member countries could be addressed. The momentum of trade liberalisation needs to be restarted through agreement to launch a comprehensive round of multilateral trade negotiations.

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