In the five years since it was established in Geneva, the World Trade Organization (WTO) has acquired a prominence based more on the controversy it has aroused than on the influence it has exercised.

Both preceding and since WTO’s aborted ministerial meeting in Seattle at the end of November 1999, the controversy has been intense, as well as misconceived and misdirected. The contest for liberalizing the global economy—WTO’s ostensible purview— is mainly being played on other turf than that of the WTO.

The controversy has been abetted by several contending sides, each presuming that WTO has powers which in fact it doesn’t possess. WTO’s opponents, whose efforts were most conspicuously and disruptively evident in Seattle, consist of a diverse set of activists in both developed and less-developed countries. In the developed countries (the so-called “North”), the opponents include labor unions, children’s rights advocates, environmentalists, and French farmers—the latter advancing the imaginative argument that, without subsidies and other forms of protection from foreign competition, the quality of Europe’s culture, as well as its gastronomy, would suffer. Opposition of labor and environmental groups proceeds from the premise that WTO can and should apply to the less-developed countries (the so-called “South”) the same labor and environmental standards which apply in the “North.”

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Opposition to WTO in the South is equally diverse. It comprises both recent and long-standing “infant” industries in automotive, machine-building, and other manufactures, whose low productivity and high costs would make them vulnerable to competition from the North if WTO were to insist on removing the various forms of tariff and non-tariff protection they presently enjoy, let alone to impose additional labor and environmental standards that would raise costs and further impair the South’s competitive position.

So, in both rich and poor countries, activist opponents are spurred by acute fears that WTO will accelerate the opening of global markets to the detriment of the interests the activists represent.

On the other side of the controversy are WTO’s supporters—notably many multinational business, high-technology, and financial enterprises—who view WTO as a vital means of furthering “globalization.” Their advocacy is based on hopes that WTO will be able and willing to accelerate economic liberalization by removal or reduction of barriers to freely competitive markets for goods, services, and capital.

Whether impelled by fears or hopes, the contending sides share a view of WTO’s power that is belied by its origins, character, record, and prospects.

WTO was created by the Uruguay Round of GATT at the end of GATT’s nearly eight years of trade negotiations. It has 135 members (China is the prospective 136th), a secretariat of 500, and an annual budget of 122 million Swiss francs (about $80 million). Its operations conform to the GATT tradition of making decisions by consensus among its members, not by vote. WTO’s three operating entities—the General Council, the Dispute Settlement Body, and the Trade Policy Review Body—include all WTO members. Where consensus is not possible, the WTO Agreement allows for the possibility of majority voting, a procedure that will probably be eschewed for the indefinite future because the industrialized countries of the North oppose it. The organization’s management structure contrasts (whether for good or ill) with that of the IMF and World Bank. These institutions have executive boards to direct the officers of the IMF and the Bank, with permanent participation by the major industrial countries and weighted voting reflecting their dominant financial position. WTO is unlikely to have a comparable structure because the majority mem-
bership from the South opposes ceding such control to the North. Although WTO’s new Secretary General, Mike Moore, is an experienced and energetic politician (formerly New Zealand’s Prime Minister and Trade Minister), what he can do will be severely limited by the constraints inherent in the WTO.

Under these circumstances, it isn’t surprising that WTO’s efforts to resolve disputes by providing “good offices” and appointing neutral panels of experts have been both dilatory and of little consequence. A case in point is its ineffectual efforts to resolve trade disputes between the United States and the European Union, relating to the EU’s banana-import rules and restrictions on imports of hormone-treated beef from the United States. During the past several years, the United States has brought to the WTO charges that these EU restrictions are unfair, unreasonable, and in violation of prior (i.e., GATT) agreements. WTO’s review panels found in favor of the United States, thereby triggering appeals by the EU from the panels’ decisions, rather than compliance with them. In response, the United States invoked sanctions against the EU under Section 301 of the U.S. Trade Act of 1974. The EU responded with a retaliatory complaint against the United States, charging that Section 301 was illegal because it preempted WTO authority. This charge was rebuffed by another WTO review panel, which judged that use of sanctions did not breach WTO or GATT rules.

It remains to be seen whether the EU will appeal the WTO panel’s decision, or instead will comply with the earlier WTO findings. If indeed belated compliance does ensue, it is more likely to have resulted from the U.S. sanctions than from the earlier WTO rulings.

The point isn’t that the United States has “won” in its charges against the EU; indeed, there are other instances in which it has “lost.” In both cases, the significance of “win” or “loss” is muted by the limited reach of WTO’s influence, and the dilatory processes by which it seeks to advance international economic liberalization.

Before too much pessimism is inferred from these indications of what in the European Parliament has been referred to as “liberalization fatigue,” it’s worth considering another domain where economic liberalization is proceeding with encouraging momentum: trans-border mergers and acquisitions (M&A), which is largely (and
perhaps fortunately) outside WTO’s immediate ambit. Major recent instances of trans-border M&A include Deutsche Bank and Bankers Trust, Daimler and Chrysler, Bertelsmanns and Random House, Renault and Nissan, Ford and Volvo as well as Honda, BP Amoco and Arco, Vodophone-Air Touch and Mannesmann (potentially), and innumerable others. The pace and magnitude represent a remarkable phenomenon with broad implications for international economic liberalization.

Thus, in 1999 global trans-border M&A increased to $798 billion, almost 50 percent above those in 1998. Firms in the United Kingdom were the most acquisitive ($245 billion), followed by the United States ($155 billion), Germany, and France ($93 billion and $92 billion, respectively)—most of the latter two countries’ acquisitions occurring within the European Union. In Japan, which hitherto has been relatively impervious to M&A by foreign firms, trans-border M&A rose in 1999 more than threefold to $24 billion, including deals with 65 U.S. firms ($12.1 billion), 25 British firms ($1.6 billion), and 12 French firms ($7.7 billion). Additional trans-border M&A impend in telecommunications, mobile phones, automotive industry, and pharmaceuticals, between firms in the United States, EU, and Japan, on the one hand, and those in India, China, Singapore, and South Korea, on the other.

To be sure, in some instances the incentives motivating trans-border M&A are perversely related to liberalization. Instead, the aim is to gain preferred market access behind protected barriers of one form or another, rather than to remove or reduce them. But, in most cases, trans-border M&A depend on, as well as generate, increasing economic openness, the breakup of anticompetitive, restrictive entities and practices (such as the keiretsu in Japan), enhanced predictability, increased transparency, and more efficient markets. In general, realization of the full long-term value of assets acquired by trans-border M&A requires reduced barriers to imports, free access to export markets, and greater openness of domestic capital markets. Hence, the acquiring and acquired firms are likely to push in these directions. Moreover, under WTO’s rules relating to “normal trade relations” among its members, concessions granted by any member—for example, freer access to imports of goods or services—to the firms of another member are supposed to be granted to all. And the ensuing
repercussions can also be expected to extend beyond M&A to other forms of direct investment and joint ventures, as well.

The result will advance international economic liberalization, notwithstanding the WTO’s limitations and occasional signs of liberalization fatigue.

Postaudit

This assessment of WTO remains valid: The organization will play a useful yet limited role in liberalization of the global economy.