## ALL IS NOT WELL WITH TRADE NEGOTIATIONS

### Short history of the trade-negotiation process

In May 1963 trade ministers reached agreement on three objectives for the Kennedy Round of trade negotiations: (1) measures for the expansion of trade of developing countries as a means of furthering their economic development, (2) reduction, or in some cases the elimination, of tariffs and other barriers to trade, and (3) measures for access to markets for agriculture and other primary products.[1] Early in these negotiations it was clear that the ambitious target of a 50 per cent cut in tariffs, with the smallest number of exceptions, would not be reached. Not surprisingly each nation struggled to obtain the minimum disruption to its own domestic production/distribution and this objective overwhelmed the belief that *any reduction in trade barriers is better than no*ne. Free trade ceased to be a goal and was instead relegated to being a monument-in-the-distance. National self-interest prevailed.

This continued, and worsened, during the 1970s and 1980s when attempts to resolve difficulties over the items given special treatment in Kennedy Round (textiles, chemicals, steel and other “sensitive” products) hit the proverbial brick wall. The Uruguay Round began in 1986 with the primary purpose of clearing the backlog of left-over items. Since the inability of the General Agreement on Tariffs and Trade to achieve a workable method for resolving disputes among member nations was widely recognised, the set of agreements it contained was replaced in 1994 with a new institutional arrangement called the World Trade Organisation. The Doha Development Round was the next series of trade negotiations, beginning in 2001 and expiring in 2005 as a result of *no result* prior to the deadline. Disputation, rather than focused negotiation, was then a central part of the world trade arrangement.

From the mid-1980s to the present time, freer trade was sought primarily through bilateral trading agreements, a large portion of which centred on the United States. The reason is this: The US could support the claim to be the world’s biggest super-market by virtue by its share of world trade and its share of global gross domestic product. The US became the principal rule-setter. In order to “come into the parlour” it was necessary for a trading partner to make an effort to meet these US-inspired rules. It did not take long for corporations, trade unions and other interest groups to realise that they could benefit from this super-market leverage by encouraging the US trade representatives to insert special rules into the trade agreements to protect the global environment, control exploitation of child labour and protect endangered species. These are *causes* which many global citizens agreed were for the common good, but “we are reluctant to support them unless we are required to do so.” With this abrogation of citizen responsibilities, the global trading system began a journey toward autocracy.

It worked for the interest groups with a global cause, so why not use it for interest groups with only a self-inspired cause? Why not insist, for example, that all patents and copyright protection for producers be a *proper protection* by extending their effective period by 50

[1] No author cited, “6th Round (Kennedy Round, 1963-67),” *The World Trade Review*, undated. Available at: http://worldtradereview.com/webpage.asp?wID=437.

per cent? After all, it resembles extended warranties to protect consumers. Surely it will make the world more inventive and more creative. Trade negotiations now are about property rights and ownership of capital, and only a little about trading rights.

**Is this good or bad?**

The International Monetary Fund apparently believes that the net effect is still good. Christine Legarde, the Managing Director of the IMF, emphasised the following as an institutional perspective:[2]

> *First,* most advanced economies will be largely focusing on the 21st century trade issues such as opening services markets and making regulatory systems more coherent. The Trans-Pacific Partnership is a good example because *it seeks to address crucial issues such as intellectual property protection and treatment of state-owned enterp*rises [Italics added].
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> *Second,* many emerging market economies, especially in South Asia and Latin America, can still benefit greatly from integrating into the global economy through traditional trade liberalisation. This may include unilateral efforts to open up trade and encourage foreign direct investment, especially in infrastructure. In Asia, in this decade alone, overall national infrastructure investment needs are estimated to be $8 trillion.
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> *Third,* for developing economies, trade and integration into global value chains should be a central plank of their development and growth strategies. Again, trade facilitation will be key.

Regarding the first of these broad categories, it is desirable to have the issues of property rights and ownership of capital addressed. But addressed by whom and under what conditions? This is where the article by Jonathan Weisman – the one linked to this comment – comes in.[3] Michael Froman, currently the US trade representative, who is trying to "land the largest trade accord in a generation," and Lori Wallach, now an anti-globalisation activists, were at one time colleagues at Harvard law school. Their story illustrates the fact that ideology is well entrenched in these trade negotiations.

Discourse involving the two of them at the present time will not serve to change their individual views or divert them from their separate career paths. Rather, it is intended to prevent their respective ideologies from weakening in the public arena. Perhaps a greater insight emerges from the statement in the article that Ms. Wallach said she offered advice to her old adversary a year ago that he should have taken: "Publish the text of the trade agreement. If the accord was so great, then everyone should be able see it, she says she

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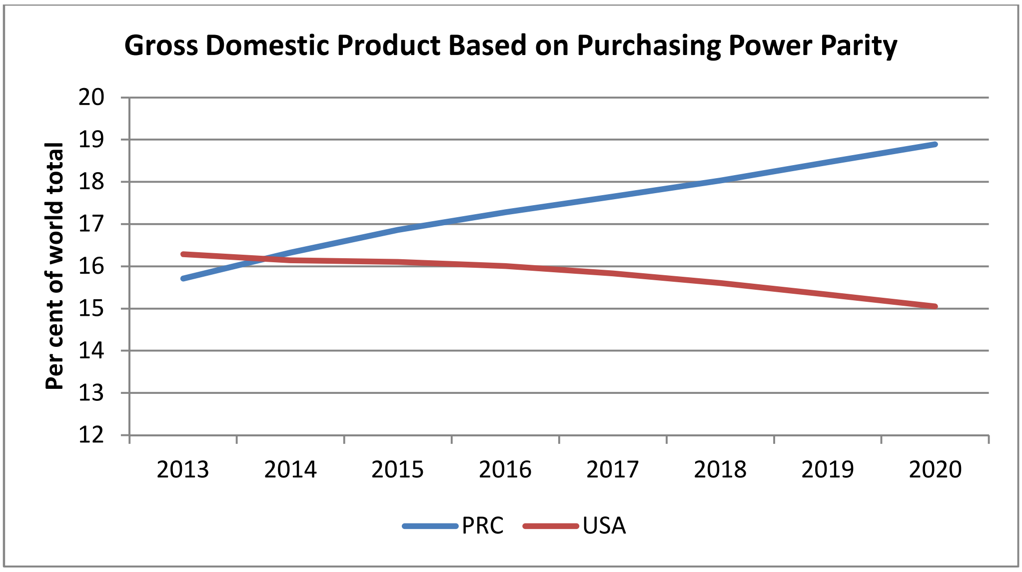
[2] Christine Legarde, "Reinvigorate Trade to Boost Global Economic Growth," Address at the US Ex-Im Bank Conference, Washington, DC, 23 April 2015. Available at: http://www.imf.org/external/np/speeches/2015/042315.htm.

[3] Jonathan Weisman, "Trans-Pacific Partnership Puts Harvard Law School Rivals on Opposite Sides, Again," *The New York Times*, 27 April 2015. Available at: http://www.nytimes.com/2015/04/28/business/trans-pacific-partnership-puts-harvard-law-school-rivals-on-opposite-sides-again.html.

told him. Otherwise, people would believe what they wanted to believe. He declined, much to her advantage."

The second broad category presented by Christine Legarde does not require additional comment but the third one does. Global value chains are important to developing countries and trade facilitation is a key element in accessing those value chains. But this does not occur simply by signing trade agreements. Large buyers must retain control of their own supply chains to remain competitive, so they are unwilling to absorb risks arising from small and relatively poor countries. The traditional response to the uncertainty of developing countries to participate in the globalisation process is that "losers" are confined to those nations that do not participate in the global economy. So join the rush. It is now becoming clear that "losers" also include nations that have participated in the global process but failed to reach a critical size and structure that allows the desired benefits to flow. The analysis of global supply chains can inform policy,[4] but such information must be accompanied by a willingness to do something about it.

The urgency associated with the desire to proceed rapidly with the Trans-Pacific Partnership, and with a minimum of interference from non-believers, can be seen from the chart below. It shows that the US global super-market is already being displaced by a larger Chinese global super-market. We could of course argue about the relatively insignificant difference in the respective shares of global gross domestic product using the IMF's preliminary data for 2014 (16.3 per cent from China compared to 16.1 per cent for the US). We could also argue as to whether purchasing power parity is the appropriate monetary unit to apply. But we cannot easily argue about the longer-term trend projected by the IMF (from World Economic Outlook Database, April 2015), with the blue line for the People's Republic of China rising well above that of the United States.




[4] Useful case studies are provided by Raphael Kaplinsky, "Spreading the Gains from Globalisation" What Can Be Learned from Value-Chain Analysis?" *Problems of Economic Transition*, Vol. 47, No. 2 (2004), pp. 74-115. Available online at: http://www.ids.ac.uk/publication/spreading-the-gains-from-globalisation-what-can-be-learned-from-value-chain-analysis.

It follows that stacking the deck of global trading rules in favour of Western multinational corporations, and US multinationals in particular (if that is what is happening and we do not know what is happening since the full terms of the agreement remain secret), with a presumption that another nation is likely to be holding the deck and dealing with it in the near future, is almost certain to significantly erode trust in the global trading system. The supply chains that contribute to the operating efficiency of globalisation cannot function without trust. The chart also gives support to Deng Xiaoping's foreign policy mantra for China to "hide its strength, bide its time, and never take the lead (*taoguang yanghui, juebu dangtou* 韬光养晦 决不当头)[5]. It may also help to explain the recent announcement that China is no longer objecting to the Trans-Pacific Partnership.[6]

This all sounds somewhat pessimistic and in contrast to the optimism that emerges from Washington. Perhaps the Trans-Pacific Partnership is really meant to be about setting high standards for trade that will be of global benefit for the next 20 years. We cannot complain about the results until they are here, but can complain about the process of trade negotiations, as presented here. The final "nail" to report comes from Bradsher's article (cited in footnote 6). While the US Commerce Department promotes beneficial features of the trade agreement, "congressional leaders say that administration officials have also been happy to portray the agreement, in private, as a geopolitical tactic to strengthen economic links with American allies in Asia like Japan." So is it a geopolitical partnership disguised as a trade agreement, or is it a trade agreement disguised as a geopolitical partnership? In allowing a choice between the two, either one is trust-reducing.

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[5] Original Chinese and translation from Kevin Rudd, "US-China 21: The Future of the US-China Relations Under Xi Jinping," report for the Harvard Kennedy School Belfer Centre for Science and International Affairs, April 2015. Available online at: http://asiasociety.org/uschina21.

[6] Keith Bradsher, "Once Concerned, China Is Quiet about Trans-Pacific Trade Deal," *The New York Times*, 28 April 2015. Available at: http://www.nytimes.com/2015/04/29/business/international/once-concerned-china-is-quiet-about-trans-pacific-trade-deal.html.