How Not to Get Trade Going

By

Jagdish Bhagwati
The author is University Professor at Columbia University and former Economic Policy Adviser to the Director General, GATT (1991-93).

If you thought that taxes and campaign reform were the only games that Washington was currently interested in playing, just wait. Trade, long off the public agenda, is about to enter center stage. The Quebec meeting on the Free Trade Agreement of the Americas was on the weekend of April, 20\textsuperscript{th} and 21\textsuperscript{st}. The US-Jordan Free Trade Agreement is with the Senate Finance Committee. An attempt at launching a Round of multilateral trade negotiations at the next WTO meeting in November will also require early attention.

That should warm the hearts of those who have seen trade policy in disarray after the Seattle debacle. But, while these decisions are pressing, the ability to take them is hostage to deep political differences. Chief among them is the divide between Democrats straitjacketed by their union constituencies that insist that our labor standards and wages are imperiled by freer trade and therefore the two issues must be linked in all trade treaties and institutions such that sanctions kick in when these standards fall short, and almost all others who see this demand as unjustified by the evidence and hence as a cynical political ploy, often dressed up as a human-rights agenda but in effect masking a protectionist intent.

With the Senate at 50-50, this divide is a serious matter. The temptation on the part of the administration therefore to bring the Democrats on board somehow, and getting on with the trade agenda, is strong. It also poses dangers that few appreciate.
The Temptation to Compromise

The new USTR, Mr. Zoellick, is personally keen to get on with his business; the recent flurry of his pronouncements indicate that, left to himself, he would surrender while pretending he had won. He would propose fines in lieu of trade sanctions: but then fines are also a sanction. The real question is: should labor standards be sanctionable?

The Business Roundtable and other corporate interests, who fear that the proliferating bilateral and regional Free Trade Agreements (whose defining trait is discriminatory reduction of trade barriers) by others are leaving the US out in the cold. So, they want us to join the proliferation game to help our own exports. But then there are these Democrats and Mr. John Sweeney of the AFL-CIO! Our businessmen therefore are joining (to the contemptuous joy and ridicule of Mr. William Greider in The Nation) the bandwagon of compromise. Ironically, the pursuit of corporate interest, denounced by the Naders and the Sweeneys of this world, is precisely what is creating the opening for the agendas of these critics of corporations!

Remember also that the fear of a recession, which has helped the Bush administration more entusiasmatically into a massive tax cut, also can propel it in the "pragmatic" direction of "doing whatever is necessary" to get trade moving.

The Danger of A Compromise

But, while any "bipartisan" compromise that links labor standards tightly to trade, with sanctions thrown in to boot, sounds like a stroke of political sagacity, it is certain to be dangerous folly, a dagger aimed at the multilateral trading system. Just remember: the time we
had a huge bipartisan consensus on trade was when the disastrous Smoot-Hawley Tariff was enacted.

The main problem is that trade, unlike sex, always needs two to tango. Any compromise must be not just between our warring factions. It must also be between us and other nations. If the Bush administration succumbs to any solution that yields on labor standards, we can be sure that the major developing countries, that would not even agree to a study group on trade and labor standards at Seattle in November 1999, will walk away from the launch of a new Round.

Yes, we could get smaller nations like Jordan, Chile and Singapore to sign on to virtually anything in the one-on-one bilateral context. Indeed the Clinton administration got a pliant Jordan to do this with a cynical view to establishing a “template” for future trade agreements. Today, the Democrats are trying hard to hold on to it on specious grounds (which I heard at the hearings at the Senate Finance Committee where I testified) such as that any delay in order to purge the Agreement of the labor provisions as drafted by Ambassador Barshefsky would imperil the Middle East peace process!

But then the question arises: is it our objective to sacrifice the multilateral trading system and to consign US trade liberalization to a mass of piffling bilaterals? True, the senior President Bush did not believe in the “vision thing”; but he did not abandon it. If the junior President Bush goes along with what is being plotted by the Democrats and contemplated by Mr. Zoellick, he will have truly done so.