An End To Global Trade?

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WASHINGTON—The refusal of a bloc of developing countries to close a deal at the recent Cancun trade summit was a victory for democracy. But it also portends a different trade order—for good or ill—than the one built up over the past several decades.

The tactic of US trade negotiators at summits has gone something like this: "We know these huge subsidies we give to our farmers make no sense. We're trying to get rid of them too. We are on your side. But our hands are tied politically by the US Congress. What can we do? Let's just make a deal on these other issues, like access to capital markets, and we'll deal with agricultural trade when it is politically viable."

But what happened in Cancun was that democracies in Brazil, South Africa and India came back and said, "Our hands are tied, too. No deal. If we go back home with a World Trade Organization agreement as bad as the one signed in the Uruguay Round—which cost us jobs because it opened access to our manufacturing markets without much in return—we will lose our own jobs."

Prior to Cancun, the developing world had pushed for a more open, transparent negotiating process. But the US and Europe refused. From early on, therefore, the developing countries worried they would be railroaded into a last-minute deal.

The US response to failure at Cancun was to say the developing countries were the losers and then proceed to propose a series of bilateral trade agreements instead of placing hope in a new multilateral round.

Multilateralism, of course, is the right way to go. Symmetrical trade across all markets is best for everyone. Even the US is unlikely to get much out of the bilateral approach. After working very hard, it may be able to get a free trade agreement with Costa Rica, Singapore and Chile—all of which will have no impact whatsoever on the US economy because they are so small.

Yet, unless the US changes its position on some vital issues, we may have reached a dead end in global, multilateral trade agreements.

US tarriffs are already quite low—less than 8 percent. The greater problem is a whole host of non-tariff barriers from dumping duties to "safeguard" tariffs on steel—which the WTO has now ruled as unfair—to "non-sanitary conditions" on food imports. In trade talks, the US generally refuses to even discuss these issues.

There are also areas where US subsidies are an issue, as I mentioned, for example, with agriculture. Agriculture exports are very important to the Brazilians. So, what do they have to gain in signing on to some agreement where their commodities can't compete in US markets because of subsidies?

In short, there is not much the US is willing to give the developing world in its areas of concern while, at the same time, demanding more from the developing countries such as "capital market liberalization." In effect, the US wants to force them through trade agreements to open up their economies for the kind of speculative capital flows that were a key factor in creating the East Asian financial crisis.

Meanwhile, the response of the developing countries to failure at Cancun and the US pursuit of bilateral deals is to look for an alternative in so-called "South to South" trade, believing there is more scope for trade among each other if they can't get the deal they want with the North. This was the meaning of Brazilian President "Lula" da Silva's trip to South Africa in early November.

In theory, of course, there is more to gain from North-South trade because of differences in comparative advantages. But, just as North-North trade has prospered, there is no question that South-South trade can as well. There are now trade agreement talks going on between China and its ASEAN periphery and among Brazil, South Africa and India.

What is emerging in the place of the old multilateral approach, it appears, is a multiple fractionation of the global trading system.

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