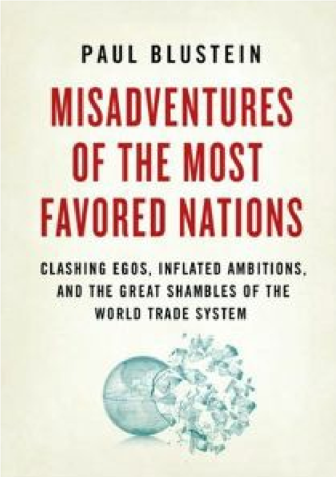

Book Misadventures of the Most Favored Nations

Clashing Egos, Inflated Ambitions, and the Great Shambles of the World Trade System

Paul Blustein
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Recommendation

Veteran journalist Paul Blustein blames half the 2008 economic meltdown – the non-Wall Street half – on dysfunctional global trade policies, and then he explains why. World trade is an arcane topic, complete with mysterious acronyms, complex rules, and negotiators with huge egos and serpentine negotiating positions pushed by antagonistic nations. In an increasingly global economy, trade negotiations are never simple. Even so, Blustein manages to tell this provocative, complex, depressing story as engagingly as possible. At times the book bogs down in negotiating points that only trade technocrats will appreciate, but Blustein fleshes out the story by capturing the quirky, sometimes volatile, personalities involved. Accordingly, *BooksInShort* recommends his book to those who can't get enough about world trade. If you want all the ins and outs, you'll be very happy here.

Take-Aways

- To preclude the trade protectionism that fueled the Great Depression and World War II, 23 nations signed on to the General Agreement on Tariffs and Trade (GATT) in 1948.
- Despite GATT's limitations, economists credit it with raising productivity and promoting worldwide economic expansion in the second half of the 20th century.
- GATT's successor, the World Trade Organization (WTO), enforces global trade rules.
- With 153 members, each with an equal vote, the WTO runs on "consensus by exhaustion."
- Trade reform could help the 2.8 billion people who live on less than $2 daily.
- Anti-WTO protestors in Seattle successfully derailed the organization's 1999 meeting.
- The Doha Round of negotiations, meant to aid developing countries, failed its objectives.
- The rising economies of China, India and Brazil, among others, challenge the power of the "Quad": the U.S., the EU, Japan and Canada.
- U.S. anti-dumping duties have doubled the price of imported Italian pasta.
- Despite marathon talks, trade negotiations fail due to personality conflicts, power mongering, poor strategies, missed opportunities and imbalances of power.

Summary

"Most Favored Nations"

The World Trade Organization (WTO), composed of 153 member nations, sets international trade rules with the goal of promoting global economic stability. Unlike the 10,000-employee World Bank or the International Monetary Fund (IMF), with its 2,600-member workforce, the WTO gets by with only a few hundred staffers. Yet it wields arguably greater power by enforcing trade rules that affect the economies of both industrialized and nonindustrialized countries. As true of any real democracy, the WTO's structure makes it difficult to govern. Member nations share equal voting rights, and every member must adopt all WTO rules for them to pass; so any one member, regardless of its size or clout, can thwart a proposal. But membership does have its privileges: All WTO countries benefit from "most favored nation" status and thus enjoy equal trade advantages.

The Doha Round

The WTO member nations – then numbering 142 – met in Doha, Qatar, soon after the September 11, 2001, terrorist attacks. Growing terrorism fears and a world economy heading toward recession pressed the participants to find ways to broaden trade liberalization's benefits to the developing world. They knew that reforming trade limits and rules could help the 2.8 billion people in the world who live on less than $2 daily. The World Bank estimated that enacting new trade policies could reduce poverty's numbers by 320 million people over the following 15 years.

> "Globalization moves in fits and starts, sometimes three steps forward, sometimes two steps back; sometimes at a gallop, sometimes at a crawl."

After all-night negotiations that extended their self-imposed deadline by 20 hours, WTO members set the "Doha Development Agenda," which called for freeing trade by 2004 and providing special agricultural assistance to developing nations. Farm trade issues have always been especially contentious because industrialized nations' agricultural subsidies give their farmers significant advantage in world markets.

> "But among sensible and knowledgeable people, nobody disputes that, overall, the expansion of trade has been a force for growth and higher living standards."

But seven years of Doha Round negotiations have led only to disputes and disagreements with little in meaningful trade reform. Subsequent WTO meetings in 2003 (Cancun), 2004 (Geneva), 2005 (Hong Kong), 2006 (Geneva) and 2007 (Potsdam) failed to produce significant change. Why? Personality conflicts, power mongering, poor strategies, missed opportunities and the rise of developing nations all played a part. The 2008 global recession compounded this failure by triggering new trade restrictions in both poor and rich nations, raising the specter of protectionism. The WTO has been hamstrung since 2001, and more than 200 bilateral and regional deals since then have undermined the authority of "the ultimate safekeeper of open world markets."

> "For all its faults, the WTO is a crucial linchpin of stability in the global economy."

Countries such as Egypt, Brazil, India, China and South Africa have unbalanced the political power once enjoyed exclusively by the "Quad," the U.S., Canada, Japan and the European Union. Because the WTO operates on "consensus by exhaustion," increased trade friction among developed and developing nations will likely further affect trade liberalization.

A Bumpy Ride from the Beginning

Despite fits and starts, 23 countries signed on to the General Agreement on Tariffs and Trade (GATT) in 1948. Under the leadership of the Quad, GATT combined mercantilism with free trade aspirations. It advanced the notion of "most favored nation" and, over several rounds of talks from the 1940s to the 1980s, succeeded in reducing tariffs on manufactured goods from 35% to 6.5%. By 1979, 100 countries were participating in GATT trade talks. However, protectionist forces prevented certain industries, such as U.S. textiles and European agriculture, from being included in GATT talks. Also, GATT maintained no enforcement mechanisms. Despite such limitations, economists acknowledge GATT's success in raising productivity and promoting worldwide economic expansion in the postwar era.

> "The terrorist attacks...offered a newly compelling rationale for how trade – and in particular, the WTO – could serve America's security interests as well as its commercial ones."

In late December 1993, 117 nations signed on to the largest worldwide trade agreement ever negotiated, the WTO. This more robust trade authority could mandate member compliance, though countries accused of breaching WTO rules could appeal to its Appellate Body, whose rulings were final. More importantly, member nations could raise trade sanctions against any partner that refused to accept the binding verdict. The WTO was also set up to encompass trade issues in "agriculture, intellectual property, services and health standards." By the second half of the 1990s, the WTO gained more clout when China began the process of full membership.

> "So here's a truly frightening thought: The fate of open global markets may depend on decades more of Doha Round-style chaos, uncontrollability and dysfunctionality."

However, "a backlash was brewing"; critics increasingly charged that the WTO promoted pro-corporate, anti-environmental, Western agendas. Those criticisms came to a head during the WTO's meeting in Seattle in 1999. There, "students, labor unionists, environmentalists, faith groups, human rights activists, animal rights supporters, Tibetan monks and graying veterans of the '60s" converged to derail the summit. But the successful protests weren't the only reason the talks failed; internal squabbling among the participants did as much to doom the meeting.

> "Democracy and inclusiveness are desirable goals, but so is efficiency in coming to decisions."

To restore the WTO's standing, Director-General Mike Moore set the agenda for its next session in November 2001 in Qatar: Focus on improving economic growth in developing nations. Trade experts differed on how to achieve this noble goal. One school, endorsed by the World Bank, maintained that increasing exports and imports (as a percentage of gross domestic product) while reducing tariffs would raise living standards. Others contended that trade liberalization alone was not an elixir for economic growth.

> "The G-20 continued to gain momentum and new members, heightening the prospects for a titanic clash between high-income and low-income nations."

In January 2001, when Bob Zoellick assumed his post as U.S. trade representative under President George W. Bush, he supported bilateral agreements with any nation that welcomed U.S. corporations. Zoellick, a workaholic, found a kindred spirit in Pascal Lamy, the European trade commissioner. They worked to advance trade relations between the U.S. and the EU, the two regions that produce 40% of world output. They diverged, though, in their stance on agriculture; Lamy resisted easing entry to European farming markets, while Zoellick was fond of asking, “How much more food can Americans eat?”

> “Global trade talks often follow a pattern of death and resurrection in which a highly publicized falling-out tends to force negotiators toward convergence at their next meeting.”

In preparing for the Doha sessions, the lesser-developed nations unexpectedly balked at the proposed agenda, threatening to sink the meeting. But Zoellick used the 9/11 terrorist attacks to link liberalized global trade with security, and he prevailed. In addition, a World Bank study caught free traders’ attention. It predicted that, if all barriers and subsidies disappeared, by 2015 global incomes would grow by $830 billion a year, and two-thirds of that increase would go to poor countries.

> “The key division at Cancun was between the can-do and the won’t-do...the U.S. will not wait. We will move toward free trade with can-do countries.” (Bob Zoellick)

At Doha, the Americans’ most contentious issue – aside from post-9/11 security concerns – centered on their mission to pass anti-dumping duties. Dumping occurs when foreigners sell products in the U.S. at unfairly low prices, putting U.S.-manufactured goods at a competitive disadvantage. Economists contend that anti-dumping laws smack of protectionism, but the laws are a favorite of the U.S. Congress, which believes the rules guarantee “a level playing field.” For example, in 1996, the U.S. accused Italian pasta producers of dumping and added a 47% duty, doubling the price of Italian pasta in the U.S. In the face of mounting pressure led by Chile, Japan and South Korea, the U.S. agreed to slight changes in anti-dumping laws that would appease both its challengers and Congress.

Reality Check

Though Doha ended on a note of cooperation, more specific agreements would have to wait until the 2003 WTO talks in Cancun, Mexico. Before that session, trade representatives from the U.S. and the EU drafted a proposal that would lower the farm subsidies of developing nations but largely maintain their own. Brazil and India opposed the plan and led a group of roughly 20 emerging countries to counter the U.S. and Europe. Nicknamed the G-20 (not the G-20 that assembled in 2008), this new voting bloc represented “more than half the world’s population.”

> “In many instances, rich countries comply fairly readily with WTO judgments rendered against them in cases brought by developing nations.”

At Cancun in September 2003, Zoellick met with the G-20 reluctantly; he didn’t want to lend credibility to what he then considered a temporary, fragile alliance. After listening quietly to the group’s demands, he asked what they were willing to offer in exchange – he caught them flat-footed. Tensions further increased over the U.S.’s successful effort to beat back cotton subsidy cuts. An impasse emerged as WTO delegates haggled over key proposals, including “investment, competition, government procurement and trade facilitation,” prompting Cancun Chairman Luis Derbez to terminate the conference abruptly. The EU saw the sudden move as a U.S. ploy to save face over the cotton controversy. Others felt it put the WTO’s viability into question.

> “So much market opening has occurred during the past few decades that the low-hanging fruit is gone; the barriers that remain are the ones that are the most politically intractable.”

Cotton came to the fore again in October 2003 before a WTO tribunal, the “Dispute Settlement Understanding,” in Geneva. At issue: whether U.S. cotton subsidies reduced prices worldwide, damaging non-U.S. cotton farmers. The Brazilians – represented by American lawyers – won their case, and, in April 2004, also prevailed against EU sugar subsidies. The U.S. suffered defeat again in March 2004 when the tiny nations of Antigua and Barbuda (combined populations: 69,000) brought a suit before the WTO that concerned online gambling. (As of spring 2009, the U.S. still had not complied with either the Brazilian or the Antiguan decision.)

“His Holiness, Pope Bob”

Zoellick, angered by the disaster in Cancun, continued to pursue ambitious bilateral and regional free-trade agreements, in order to “reward cooperative countries and punish uncooperative ones.” The accords were built on existing WTO pacts and buttressed U.S. foreign policy goals. However, academics, legislators and critics questioned whether Zoellick’s bilateral deals hurt multilateralism and undermined the WTO. Zoellick rebuffed his detractors.

> “Might the world’s poor have been better off if, instead of spending all that money on negotiations for a development round, the funds had simply been disbursed in the form of aid?”

The Bush administration advocated expanding the North American Free Trade Agreement (NAFTA) to the entire Western Hemisphere. In November 2003, the U.S. proposed that 34 nations give admission to one another’s service and investment firms, while also securing intellectual property rights protection. Brazil and Argentina opposed the proposals, Brazil objecting to the “U.S. annexation of Latin America.” When stern U.S. cajoling could not budge them, the deal died.

> “The trading system is at risk of joining the financial system in crisis.”

Zoellick next took the political risk, in the 2004 election year, of resurrecting the failed Cancun WTO initiatives. He proposed that the U.S. cut export subsidies by a specific date and change its farm policy. In turn, the EU offered to eliminate export subsidies and liberalize trade access for the world’s least developed nations, primarily those in sub-Saharan Africa and the Caribbean. After more contentious meetings, Zoellick asserted his leadership and wrote “about a dozen amendments” that revived the talks. By July 2004, the WTO was back in business.

Impasse

By that autumn, both Zoellick and Lamy had left their posts; a re-elected George W. Bush made Zoellick a State Department deputy secretary. Rob Portman, a well-liked, even-tempered Republican House member, replaced Zoellick as U.S. trade representative. The U.S. rallied for internal support to abolish U.S. farm subsidies in order to revive the deadlocked Doha talks. To complicate matters, though, a 2005 World Bank study found that nations that depended on food imports would be disadvantaged, rather than helped, by the complete elimination of farming subsidies. Without the excess of aid-supported crops, prices would rise, adding to poor countries’ financial burdens. And the bank suffered a blow to its own credibility: It revised downward its 2001 forecast that free trade would lessen poverty by 320 million people. It now estimated that number to be only 12 million. Globalization's detractors gloried in what they considered justification for their position.

More disagreements and bickering set the tone for the WTO's late 2005 meetings in Hong Kong. The last main agreement centered on the EU keeping some tariffs in place until 2013, and not 2010, as the G-20 had demanded. In the words of a journalist paraphrasing Winston Churchill: "To sum up the meeting of World Trade Organization ministers in Hong Kong...rarely in the history of international negotiations have so many labored so long to produce so little."

About the Author

Paul Blustein is an award-winning business journalist who has written for *The Washington Post* and *The Wall Street Journal*.