Crashing in Cancun

Could calamitous end of WTO meeting foretell end to booming international trade?

BY THEODORE PRINCE

Shakespearean tragedies are five acts long, and while their final scenes resolve the play’s conflicts, the real climax traditionally occurs in the third scene of the third act. For the players in the international trade drama, there exists some fear that the rather calamitous end of the recent World Trade Organization (WTO) meeting in Cancun may foretell a tragic climax to the rather spectacular growth of trade.

International trade is estimated to make up almost one quarter of the U.S. economy. This figure is expected to grow to one-third in the next decade. Interestingly, similar levels of trade existed in the early 20th century — before World War I and the Great Depression. In fact, for many of us, trade growth has almost become an assumed fact. This was accomplished in large part by multilateral, international economic institutions which were created after World War II.

The General Agreement on Tariffs and Trade (GATT) was established in 1947 with the understanding that tariffs must not discriminate between countries. GATT went through a series of multi-year negotiations (called “rounds”) culminating in the WTO’s creation. The current round is named after Doha, Qatar, the site of a November 2001 WTO ministerial conference.

Had the WTO meetings held in Seattle in 1999 not ended in chaos, current trade negotiations might well have been called the “Clinton” or “Millennium” Round. After Seattle, the entire future of negotiations was in question. Certainly, the next round was not assured. Former trade negotiator Clyde V. Prestowitz has pointed out that the achievements of the past decade “have been so successful that we’ve gotten down to the final, difficult, issues.” Many of these issues have remained unresolved for more than 50 years.

DDA. The Doha meeting was critical, as it inspired the United States and European Union to work together and launch the Doha Development Agenda. The DDA provided recognition to developing countries, who felt their needs were largely ignored during the previous round (the Uruguay Round which led to WTO formation). Poorer nations determined they would benefit if subsidies and tariff barriers were lowered. The stakes are significant — the World Bank has estimated that a successful Doha Round could raise global income $500 billion annually by 2015, and that 60 percent of that growth would go to poorer nations — helping 144 million people to rise above the poverty level.

Among the many issues of considerable debate in forming the DDA, the promise of freer trade in farm products (along with reduction in subsidies) is probably the most well known. Yet, other challenges — textiles, export subsidies, tariffs on manufactured goods, environmental protection, and investment and competition policies — also loomed. In fact, the Cancun meeting broke down over negotiations regarding investment rules and antitrust policy. Opposition was initiated by a group of 21 (G-21) developing countries led by Brazil,
India and China. Many observers questioned U.S. intentions during this deliberation. President Bush entered office with one of the most ambitious trade agendas ever put forth. He proposed trade deals which extended globally, regionally and bilaterally. His first step was to re-obtain trade promotion authority (“fast-track”) from Congress (This authority had expired in 1994 and had not been reauthorized).

Bush obtained trade promotion authority last year by employing rather unique tactics. President Clinton got necessary North America Free Trade Agreement approval votes with bridges and highways. But rather than load down the budget with traditional “pork barrel” spending, the current administration “bought” votes with a series of protectionist actions which have caused EU Trade Commissioner Pascal Lamy to lament that “meetings of the WTO’s dispute settlement body have become a litany of complaints against the U.S. and its failure to implement WTO findings.”

As the 2004 election approaches, the political calculus in this country remains as complicated as ever. Job loss is a major issue, deemed critical in such “battleground” states as Pennsylvania, Michigan and Ohio. To appease steel manufacturers, Bush imposed “safeguard” tariffs (up to 30 percent) on some imported steel in March 2002. To the administration’s embarrassment, many domestic producers promptly raised their prices by the same amount. The actual result may have been that more jobs were lost from steel consumers than were saved at steel producers. The WTO has ruled many of these actions illegal.

The administration has also undertaken protectionist actions on grain, lumber and other commodities. All of these steps impede DDA achievement. They reduce trade, and, in turn, invite retaliation. The EU, showing great sophistication in American politics, threatened to impose punitive tariffs on items from the same states who benefited from U.S. tariffs. Chinese Trade Minister Shi Guangsheng has complained, “Advanced nations which once preached free trade are now undermining free trade.”

Trade is further complicated by the dollar. A strong dollar has supported low import values. A weak dollar could decrease imports (or increase inflation) — without increasing exports. Although Treasury Secretary John Snow has made a great show of seeking a lower dollar, the administration has not yet repudiated the strong dollar policy that has been essential in restraining inflation and financing our budget deficit.

**Bilateral Deals.** Many WTO participants are concerned that U.S. Trade Representative Robert B. Zoellick is consuming precious time, effort and political capital on bilateral and regional negotiations. This May, a trade deal was signed with Singapore — a member of the Iraq “coalition of the willing.” A similar agreement was signed with Chile a month later. The practice of conducting trade deals for political — rather than economic — benefits has no end. Any friendly nation with geopolitical influence (e.g., Pakistan and Jordan) is asking for — and often receiving — trade concessions.

Beyond bilateral negotiations, regional negotiations are being considered more frequently. An agreement with southern African countries has been contemplated, as has a Free Trade Agreement of the Americas (FTAA) — which would involve 34 nations. The FTAA is an interesting situation because it has a year-end deadline. The agreement was to have been completed within ten years of its 1994 signing.

The FTAA has some interesting dynamics because the two major nations, the United States and Brazil, were on opposing sides in Cancun. In the face of pressure from Washington, Costa Rica, Guatemala, Peru, Colombia and Ecuador have withdrawn from the G-21 in the hope of resuscitating FTAA — and their own bilateral trade deals.

Meanwhile, Japan, the world’s second-largest economy, has reached a bilateral agreement with Singapore, and is talking to Mexico (although that deal appears stalled on agricultural
issues too). Japan is also negotiating a regional agreement with the Association of Southeast Asian Nations (ASEAN), which recently concluded an internal free trade agreement. ASEAN has also been negotiating with China and South Korea.

Trade is a policy issue which affects us all — but most especially, those of us in the transportation and logistics industry. The success of international trade is an intermodal success story. Containerization and double-stack transportation were key components in fueling trade and economic growth. The demise of trade negotiations would greatly damage our industry by direct reduction in business, and indirect harm to the economy. We can only hope that the Doha Round, like all of its predecessors, is successfully completed in a last minute flurry of accommodations. We will all benefit.

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