

MEASURING THE BENEFIT OF INTERNATIONAL TRADE —

What Yardstick Should We Use?

by Karen Wilde Goddin, Executive Director, Pacific Northwest International Trade Association (PNITA)

Is global trade good for Oregon's economy? Do the international agreements that govern global trade serve the interests of Oregonians? For some of us, the resounding answer is "yes!"

Why Do We Need More International Trade?

History has shown that isolationism—whether economic, political, or social—will thwart a nation's future far more than any external force. United Nations Secretary-General Kofi Annan has stated,

"The poor are poor not because of too much globalization, but because of too little."

Whether you think trade is good or bad, global commerce helps the United States sustain its high standard of living. America's economic growth depends heavily on access to foreign markets, with about one-third of our growth directly the result of exports. Fred Bergsten, of the Institute for International Economics, credits trade liberalization and globalization for half of American productivity growth from 1996 to 2000, and claims that it reduced inflation and lowered unemployment. U.S. companies that invest overseas employ about 19 million workers in the United States, representing about 15 percent of all U.S. private sector jobs.

Trade also creates jobs in developing countries and higher-wage jobs in developed countries. A recent World Bank study indi-

cated that the income per person in "globalizing" developing nations grew three and one-half times faster than in "non-globalizing" developing countries. John Francois, of Erasmus University in Rotterdam, forecasts that new global trading negotiations could create \$90 billion to \$190 billion in higher incomes for developing countries.

However, as markets become more interdependent, it is impossible to shield everyone from the negative consequences of job loss as the economic principle of "comparative advantage" works its way through the business cycle on a global scale.

A case in point is America's energy crisis of the 1970's, which sharply increased market demand for low-cost, fuel-efficient cars. U.S. automobile manufacturers were slow to respond to this new demand and domestic car production slumped. The Japanese auto industry gained huge market share worldwide as its autos met this market demand. Over time, however, Japanese domestic labor became more expensive, leading to more component production being sent offshore to Korea. In turn, Korea built a nascent auto industry by capitalizing on its "comparative advantage" of lower wages and domestic trade barriers to imported cars. U.S. automakers re-tooled their own production capabilities during this period and began to offer attractive, better-made, and more fuel-efficient

cars, winning back critical market shares. These global shifts in production did not come without social and economic disruptions, but most people would agree that everyone is better off because of these events.

It is critical to understand that trade is a two-way street and dynamic—change creates more change—and that the types of goods and services that are traded

as the arbiter that ensures that trade flows as smoothly, as predictably, and as freely as possible. The WTO's dispute-settlement process helps to keep disputes from escalating into either military conflict or unmanageable political tit-for-tat on a global scale. As Kofi Annan's quote implies, free trade agreements commit the United States and other nations to a future agenda

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between and among countries evolve over time due to economic conditions, shifts in consumer demands, and technological advances.

The dynamic nature of trade is one of the paramount reasons why we need a rule-based trading system. Without trade rules and agreements, international commerce will never function on an equitable basis. The WTO serves

while restrictions on trade too often embrace the past.

U.S. Trade Agreements—The Negotiation Process

In order to have an informed opinion of the WTO and NAFTA, as well as of other trade agreements, it is essential to understand how U.S. trade negotiations work. While the articles in this forum will help readers

Guest Forum Editor: The Last Word

Facts You Should Know About International Trade and Oregon

The U.S. Department of Commerce has estimated that over 128,000 jobs in Oregon rely on export-related production—46,000 jobs associated with manufactured exports and an additional 81,000 jobs related to supporting manufactured exports in transportation, business services, and related sectors. By this analysis, approximately 20 percent of Oregon's employees are in manufacturing and 10 percent of the state's private sector employees are engaged in exporting. These export jobs pay between 13 and 20 percent more than non-trade jobs. Oregon's farmers are also active in world markets. An estimated 40 percent of Oregon's agricultural products are exported, amounting to over \$600 million in 2001 and supporting an estimated 10,000 jobs around the state.

International trade agreements have also helped expand Oregon's exports from \$5 billion in 1990 to over \$10 billion today. Under the North American Free Trade Agreement (NAFTA), shipments to Mexico and Canada doubled to \$2.2 billion between 1995 and 2000. With China's accession to the World Trade Organization (WTO), Oregon's exports have tripled in the last three years to over \$500 million.

Karen Goddin

comprehend the complexity of the negotiation and dispute settlement processes, I would like to add a few more facts and emphasize some points made by others.

Any country can initiate trade discussions with another one. This year the United States, through the office of the U.S. Trade Representative (USTR), has proposed that more than a half-dozen bilateral and regional trade agreement be undertaken. The U.S. multilateral trade negotiations are also managed by USTR.

As **Jim Bailey** explains in his discussion of Trade Promotion Authority, or "Fast Track", in this issue of *Oregon's Future*, whether they are bilateral or multilateral trade negotiations, the USTR must report to Congress to allow its members to raise issues and express concerns about the agreements they find unacceptable.

On average, most multilateral trade negotiations take between eight and ten years to complete. Bilateral negotiations take less than half this amount of time. Throughout any negotiation process there are regular, specific, and extensive consultations among various groups—including the U.S. Congress; manufacturing, service industry, and agricultural interests; labor and environmental groups; and representatives of state and local government. These groups advise our trade representatives at every level during the negotiation process. Although these groups are not actually at the negotiating table, the USTR keeps them informed and they participate in the vetting of U.S. positions. These consultations provide checks and balances on U.S. negotiators and influence the overall course of discussions. As U.S. advisory groups engage their

foreign counterparts, the coalitions that emerge shift depending on the subject under negotiation. The outcome is a carefully balanced package that reflects the give and take of hard-fought trade concessions. Trade agreements, once finalized, are then ratified by national governments.

Most members of Congress agree with Representative **Greg Walden** that fast-track authority is needed to allow the United States to avoid the pitfalls of having 535 members of Congress individually negotiate or renegotiate the deal the administration has reached. (*See the interviews with Walden and Blumenauer and Jim Bailey's article—ed.*)

However, critics believe that the role of Congress should be expanded and that members of Congress should be able to selectively approve agreements. I believe this approach would invite politics, as it has in the past, to unravel the process that is needed to safeguard the global trading system.

Once agreements are ratified, they serve as the legal ground-rules for international commerce. Essentially, they are contracts that guarantee member countries important trade rights. They also bind governments to keep their trade policies within agreed limits for everybody's benefit.

Assessing Trade Agreements

To establish a strong rules-based framework in trade agreements, it is important to have a transparent, strong, and inclusive consultative mechanism to hear the concerns of those affected by

globalization. Recently, a coalition of unions, environmental groups, religious organizations, and consumer advocates drafted a "Yardstick for Assessing Trade Agreements," by which to measure the merits of international trade and investment agreements. The Yardstick's nine principles,

As we create and modify trade agreements to manage the free flow of goods, services, and capital from country to country the parties in each negotiation must use compassion to fairly balance the interest of all stakeholders.

reproduced here in a side bar, focus primarily on growing concerns over the General Agreement on Trade in Services (GATS) provisions in the WTO. Members of the coalition are concerned because GATS will open up the service sector, the U.S. economy's largest, which includes many industries traditionally considered in the public domain, publicly owned, or at least heavily regulated. In her introduction to this forum **Barbara Dudley** raises the issue of the importance of GATS and expresses her concern that most people, including members of Congress, are not aware of the ramifications of many of its proposed articles.

While the Yardstick's principles intelligently articulate the

concerns of those who see themselves as part of a global justice movement, it prompts me to ask, "What should America's trade goals be?" Do we want to equip as many citizens as possible to compete in the 21st century, or do we want to protect yesterday's jobs?

If international environmental agreements are to trump trade agreements, why include environmental provisions in trade agreements at all? In some cases, the rights outlined in the Yardstick are already assured—countries can protect themselves against unfair trade practices.

Local and state governments are already empowered to play a consultative role in trade negotiations that directly impact them. The Yardstick also argues that patent rights should not be part of Intellectual Property Rights (IPR) provisions within trade agreements, but rather left to other types of international agreements on public health, biological diversity, and cultural and botanical heritage. This proposal is unrealistic given the significance that intellectual property plays in all aspects of the economy, from manufacturing to agricultural production. (See *Barbara Dudley's response to Sean Fitzgerald's discussion of intellectual property rights for an alternative view.* -ed)

Another important question I have regarding the "Yardstick" is whether ethical standards, labor laws, or environmental practices should be integral elements of U.S. trade negotiations or pre-conditions to signing any bilateral or multilateral agreement. **Jim Bailey**, in his *Myths about the WTO*, discusses why the United States does not have the right to make laws in other countries. Critics and proponents point to the Jordan Trade Agreement as an illustration of a workable model.

"Local to Global," a coalition of Oregon unions, environmental groups, religious organizations, consumer advocates, and other citizens mobilized on trade related issues drafted the attached "Yardstick" to measure trade agreements against.

Yardstick for Assessing Trade Agreements

Congress will be asked to approve a series of international trade and investment agreements over the next few years. These will be a part of the rules of the global economy, determining who benefits and who loses from the flow of goods, services, labor, and capital around the world. They will have a major impact on our community and the values we care about.

Our representatives should cast their votes on these proposed agreements based on sound principles reflecting the values of the entire community—not the narrow economic interest of any particular group within it.

The yardstick is a statement of important principles that the endorsing organizations believe should guide trade and investment policy. The yardstick does not address every issue that will arise, but it does provide a principled instrument to be used to measure proposed trade agreements: If a trade agreement conforms to the principles, it is worthy of consideration. If it does not conform, it deserves to be rejected.

I. Trade Agreements should protect public interest laws from attack by private companies and other governments.

- Trade agreements should not empower foreign corporations to sue governments challenging (or seeking compensation for profits lost because of the enforcement of) laws or regulations to protect the public welfare such as those establishing environmental, food safety or worker safety standards or government procurement or economic development policies.
- Trade agreements should not permit member states to challenge laws or regulations to protect the public welfare such as those establishing environmental, food safety or worker safety standards or government procurement or economic development policies unless such

laws were actually intended to discriminate or to impede trade.

2. Countries should have the right to ban products or practices that may present a risk to the public.

Trade agreements should allow nations to follow standards adopted in reliance on the precautionary principle.

3. Patent rights should give way when necessary to protect public health and biological diversity.

Intellectual property rights in gene sequences, pharmaceuticals, and seeds should not be subject of trade agreements, but rather of an international protocol that protects public health, biological diversity, and cultural and botanical heritage.

4. Trade agreements should not trump international environmental agreements.

Trade agreements should not preempt obligations that nations have undertaken under conventions of the International Labor Organization and under Multilateral Environmental Agreements and should not penalize them in any way for adhering to them.

5. Communities should have the right to make socially responsible purchasing decisions and to choose how to deliver public services.

Trade agreements should not restrict a government's ability to provide a public service through whatever mechanism it chooses or to regulate providers of public services. Nor should a trade agreement limit the ability of a government to determine the manner in which it procures goods or services.

Continued on next page.

Guest Forum Editor: The Last Word

Continued from previous page.

6. Trade agreements should not pit workers against each other or drive down labor and environmental standards.

Trade agreements should promote environmental and worker protection by providing for binding, enforceable measures within the agreements to ensure that:

- All member countries protect in domestic law the rights established by the International Labor Organization in its 1998 Declaration on Fundamental Principles and Rights at Work;
- No member country may thwart enforcement of its environmental and labor laws and regulations; and
- No member country may lower environmental and labor standards to attract investment or gain trade advantages.
- Environmental and labor provisions in trade agreements are subject to the same dispute resolution and enforcement mechanisms that apply to all other aspects of the agreements.

7. Trade agreements should not compromise a country's ability to feed itself and ensure a healthy food supply.

Trade agreements should not restrict any government's ability to protect the food security of its people and the viability of its agricultural sector.

8. Trade agreements should allow countries to protect themselves against unfair trade practices.

Trade agreements should not weaken government's ability to protect vital domestic industries from unfair foreign trade practices such as dumping, predatory pricing, import surges and other economic attacks.

9. Affected communities—not just corporations—should have a voice in trade disputes.

Trade agreements should contain dispute resolution procedures that are transparent, open, and allow non-governmental organizations such as religious organizations, labor unions, and private environmental groups to file amicus briefs in any proceeding.

For more information see localtglobal.net



Karen Wilde Goddin, has served as the Executive Director of the Pacific Northwest International Trade Association (PNITA) since August, 1998. PNITA, founded in 1982, is a private, non-profit trade association dedicated to promoting international commerce throughout the Pacific Northwest region. PNITA represents leading corporations and small businesses located throughout Oregon, Idaho, and SW Washington. Its members are exporters and importers, and comprise business interests in the agriculture, high-tech, manufacturing and the service sectors. Prior to joining PNITA, Ms. Goddin was Executive Director of the US-ASEAN Business Council, a Fortune 500 trade association, based in Washington DC. Ms. Goddin also spent ten years with the U.S. Department of Commerce's International Trade Administration in Washington. During her tenure with Commerce, she was selected to serve as Executive Assistant to the Under Secretary of Trade, Jeffrey Garten. Ms. Goddin worked on Southeast Asia market access and IPR trade policy negotiations and traveled as an ASEAN adviser to the APEC Ministerial in Jakarta, Indonesia in 1994. Ms. Goddin holds a Master of Science in Interdisciplinary Studies: Business, Economics, and International Studies from the University of Oregon, where she also received her Bachelors of Science, Sociology.

In general terms, this agreement makes it clear that neither party can use its labor or environmental laws to gain a trade advantage (*see Wu interview -ed*).

This raises an often-overlooked point. Given the dynamic nature of trade that our state economist, **Tom Potiowsky**, describes in his article in the forum, it is critical that the creation of trade agreements includes as many stakeholders as possible. The WTO, as an organization, is only about 10 years old. The rate of global change during this period has accelerated at a breathtaking pace. Critics and proponents are now working on solutions to questions no one anticipated. As we create and modify trade agreements to man-

age the free flow of goods, services, and capital from country to country the parties in each negotiation must use compassion to fairly balance the interest of all stakeholders.

As USTR Robert Zoellick has stated, "Trade is about more than economic efficiency; it reflects a system of values: openness, peaceful exchange, opportunity, inclusiveness and integration, mutual gains through interchange, freedom of choice, appreciation of differences, governance through agreed rules, and a hope for betterment for all peoples and lands. When we think about the connection among trade, economic growth, labor and the environment, we should see them as being mutually support-

ive, not in conflict with each other." Trade can help promote democratic conditions, and encourage economic and legal reform as well as transparency in the economic and legal affairs of developing countries.

Given what is at stake, it makes sense that those most affected by globalization want to play a strong role in the consultative process that governs trade negotiations. The negotiating process supports such a desire. Whether through the USTR consultative process or through congressional representation, trade critics and proponents alike can be heard, create prospects for greater understanding, and find common goals.