

Old Arguments, New Realities: The Post-Cancun Transformation of the Free Trade Debate

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On December 3, 2003, *Oregon's Future* revisited the spring 2003 International Trade Forum. This public panel discussion was entitled, "Has the Paradigm Shifted?" reflecting the notion that the failure of the WTO Ministerial in Cancun and the fizzle of the Free Trade Area of the Americas (FTAA) meeting in Miami must be significant.

We have heard certain positions over and over since trade agreements first edged their way into the public debate in the NAFTA battle during the 1992 presidential campaign. Ross Perot heard a giant sucking sound of jobs fleeing to Mexico and Vice Presidential Candidate Al Gore warned that protectionism historically led to depression and world war. As someone who has focused on globalization and the free trade/fair trade debate for some time, I was struck by the degree to which members of the *Oregon's Future* panel repeated these classic arguments.

Marty Hart-Landsberg, professor of economics at Lewis and Clark College, portrayed free trade agreements as constraints on gov-

ernments' ability to protect the public interest. He also pointed out that current agreements concentrate benefits in the hands of global investors. Scott Goddin, of the U.S. Department of Commerce, stressed the need to support U.S. negotiators with Trade Promotion Authority (*TPA is a contract between the President and Congress on America's trade agenda, formerly known as 'fast track'. This negotiating authority expired in 1994 and renewed in August 2002—Ed.*). Tim Nesbitt of the Oregon AFL-CIO focused on job losses for U.S. workers and Joseph Kruzich of the U.S. State Department reiterated orthodox principles of economic theory, the immutable laws of comparative advantage, and that a rising tide lifts all boats. More significant, however, was the tone of the *Oregon's Future* panel. It signaled a shift in the balance of confidence among the various positions.

A More Knowledgeable Debate

Since Seattle 1999, people in all walks of life, but especially students and workers, all over the

world, have gained confidence as they learned more about the intricacies of NAFTA and the WTO. While 9/11 certainly exposed new, more complicated facets of globalization in the U.S., it did not dampen people's interest in how we relate to the rest of the world. In the U.S. and in China, where I do most of my research, a healthy skepticism and a heightened interest in details have taken over from the 'leave it to the leadership' attitude I saw during the WTO negotiations in the 1990s.

One of the most striking changes in the world debate, illustrated at *Oregon's Future* forum, is the shift in who uses the data produced by government or public think tanks. Ten years ago, anti-globalization activists warned us that socioeconomic reports simply supported the interests of their corporate funders. In an interesting reversal, at the *Oregon's Future* panel, Tim Nesbitt of the AFL-CIO authoritatively cited Economic Policy Institute (EPI) reports on NAFTA job losses, while Scott Goddin countered that research bias at EPI skewed the claimed effects of NAFTA on U.S.

jobs. I do not disagree with Scott. As a methodologist in my profession used to say, "If you torture the data, it will confess." But the important point here is that statistics are a tool of offense and those playing defense respond with calls for skepticism. (*See Scott Goddin's sidebar, "Disraeli Knew What He Was Talking About."* —Ed)

Victory at Cancun?

This trading of offensive and defensive positions was equally apparent in the spin put on the events at the Cancun WTO Ministerial meeting and to a lesser extent the FTAA meeting in Miami. Going into Cancun, the governments of the United States and the European Union agreed on a framework for renegotiation of the WTO Agreement on Agriculture. These two trade superpowers pushed the new Singapore issues onto the agenda. The Singapore proposal would provide foreign corporations the same rights as local businesses to receive government subsidies, to bid on government contracts, and to provide public services.

In previous years, the US-EU agenda undermined individual opposition to such initiatives from even a large developing nation (such as India) by strong-arming and enticing the rest of the developing nations. Decisions in the WTO require only passive agreement from all members. Few poor nations have the courage to actively oppose a US-EU proposal. But in Cancun, the US and EU negotiators found themselves confronted by two well-prepared coalitions of developing nations.

A group of the world's poorest nations from Africa and the Caribbean stood together to block any agricultural agreement that did not address the problem of

U.S. cotton subsidies. In 2002, the U.S. spent 3.9 billion dollars to subsidize cotton production for 25,000 cotton farmers. This was three times the entire U.S. aid budget for Africa but, more importantly, these subsidies suppressed world cotton prices by as much as 26 percent, pushing millions of poor cotton farmers worldwide further into poverty. It takes considerable political inequity to maintain a system where millions of farmers are sacrificed so that 25,000 can sell below the cost of production. These poor countries hoped to alter this equation.

A second coalition of (eventually) 22 more powerful developing countries banded together to insist on greater market access for their sugar, beef, milk, wheat and other products. The G-22 included several nations with large populations, production capacities, and markets including Brazil, China, India, Kenya and South Africa. The G-22 claimed that, since they represented more than half of the world's people, their most pressing concern (first world agricultural subsidies) should be addressed first and the Singapore issues should be taken off the table. In the final hours, the G-22 opened another offensive challenging the formal and informal negotiating processes (the infamous 'green room' negotiations and 'chair's discretion' drafts) that have long favored the dominant, northern powers. When it became clear that the G-22 coalition would not dissolve in the face of US and EU pressure, the northern powers cut their losses and brought the Cancun Ministerial to an abrupt close. The United States launched a post-ministerial series of bilateral talks attempting to peel away G-22 members one at a time. However, at the FTAA negotiations in Miami one month

later, it became apparent that Brazil was holding its ground, an indication that the G-22 (even if it becomes the G-17, 16 or 15) is going to be a significant player for the foreseeable future.

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sides at the *Oregon's Future* panel in December. Both Joseph Kruzich of the State Department and Scott Goddin of the Commerce Department framed Cancun and Miami as the best we could do under the circumstances and lamented the developing world's unwillingness to negotiate. Scott was clearly pessimistic about the prospects for further progress in WTO negotiations, particularly within the hyper-political environment of an election year. Joseph emphasized that bilateral negotiations offer the best possibility of progress. The WTO is now clearly less attractive as an arena for pressing U.S. interests as defined by the current administration.

While a bilateral strategy will allow the United States to use its disproportionate power to weaken the G-22, it is worth questioning what long-term effect this may have on the development and maintenance of the WTO itself. In Miami, the U.S. had to settle for an a la carte agreement (formally known as plurilateralism) in which each nation has the right to

opt in or out of specific provisions. While this outcome allows the United States to press each country individually, it fails to bind Brazil, the largest nation in the Latin American market. As such, Miami represents a huge setback in the U.S. and corporate agenda to extend NAFTA throughout the hemisphere. If the U.S. pursues a similar strategy in global negotiations, the WTO may become little more than window dressing for a return to 1980s' style trade bashing.

Unlike the free traders on the panel, there was a post-Cancun enthusiasm for the WTO among the fair trade camp. Co-moderator Barbara Dudley was clearly celebrating a victory when

she said that trade agenda has "shrunk back down to where it was" in 1986 and that "the slate has been wiped clean for the moment" giving people the opportunity to really participate. I spoke of a global populism driving and responding to the G-22's surprising strength in Cancun. Calling a failed summit a victory is a measure of how marginalized the fair trade position has been in the past. As Tim Nesbitt put it, when the status quo in negotiations has been the corporate agenda "getting to no can be liberating." Indeed, Tim expressed doubts that this 'no' means we are on our way to a better 'yes'. "There is still a sobering imbalance of power," he cautioned. The return to bilateralism might slow the free trade process down, but the end result could be much the same.

A return to bilateralism refers to the 1980s when the Reagan administration used U.S. laws to punish other nations for their protectionist policies such as tariffs and undervalued currencies. It is important to note that while Japan-bashing got most of the media attention, U.S. actions were more frequently aimed at weaker, poorer nations. The Reagan and Bush Sr. administrations also used the International Monetary Fund (IMF) to push indebted countries to further open their economies, a process



that continued and intensified during the Clinton administration. Some, such as Joseph Stiglitz (former chief economist of the World Bank), believe that the U.S.-backed push for trade and investment liberalization in the 80s and into the 90s set the stage for the Asian financial crisis of 1997. In any case, the 80s was not a good decade for poor nations whose policies diverged from the U.S. agenda. The decade was also not particularly good for American factory workers as Whitehouse efforts to pry open markets for U.S. exports quickly turned into an opportunity for U.S. corporate investment to shift production overseas.

In this historical context, the victory in Cancun is clearly a double-edged sword. If the U.S. uses bilateral pressure to break up the G-22, those who advocate for the interests of American workers or for greater equity in the world trading system may come to miss the imperfect rules of the WTO. The difficult task for the fair traders is to press for progressive changes in WTO procedures and rules without letting the U.S. walk away. Again, it was Tim Nesbit who phrased the challenge most thoughtfully, "It is up to us to change the hands that are dealt at these trade meetings (by our government) just as it is up to the developing countries to play their hands differently."

Democracy and Trade

This brings us back to one of the classic debates in trade agreement politics, the proper role of democracy. The opposing camps stated their theoretical positions as usual. Joseph Kruzich described democracy as a dependent variable (an outcome). He referred to the Europe of our great-grandparents where high tariffs and a lack of economic opportunity "led to murderous wars twice in the first half of the 20th century." Both Republicans and Democratic administrations have argued that free trade creates the necessary conditions for economic growth and human creativity, which in turn makes stable, open political systems possible. This justification was aggressively used by the Clinton administration in support of permanent normal trade status and WTO accession for China.

Fair traders view democracy as an independent variable (a cause of some other outcome). Their concern is the gap between rich and poor that increases within and between countries as they open their markets to global competition. (See Amy Chua's book *World on Fire for a conservative's argument to reduce the income gap in these countries.*—Ed) Fair traders assume that unregulated capitalism concentrates wealth and only democratically accountable politics

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can facilitate redistribution generating equity and justice.

These positions are not as contradictory as they may seem. The collapse of Communism demonstrated that the creation of wealth requires some type of market activity. At the same time, the post-communist decline in the standard of living for most Russians and the blow the middle class suffered in the East-Asian financial crisis illustrate how unregulated markets increase income inequality. In short, markets hold the surest route to generate prosperity just as politics offer the strongest potential to distribute some of that wealth to meet individual and social needs. A strong democracy balancing healthy markets seems the most likely path to a people friendly system.

But old partisans resist the evidence. Organized labor continues to advocate for protection of U.S. workers regardless of the impact on the global or domestic economy. Market zealots continue to argue against state intervention as if the Asian financial crisis never happened. It was remarkable to hear Joseph Kruzich respond to a question on income disparity as a result of globalization: "Over time (income inequality) will probably even out as

well. I go back to the notion that governments are very ineffective at trying to adjust income distribution and change." Such unreconstructed trickle-down theorizing sounds increasingly hollow to those on the have-not side of the growing divide.

What Kind of Democracy

Closer to the middle, those who advocate for (or at least accept) the need for democratic accountability within global rule making still have plenty to disagree about. One of the most interesting exchanges at the forum took place between Tim Nesbitt and Scott Goddin. Tim praised the governments of the G-22 for standing up for the interests of their own citizens adding, "I wish our own trade representatives would do the same." Scott countered "the U.S. has the most democratic process on earth," and described the input both Congress and interest groups of all kinds have on the U.S. negotiating position.

Tim and Scott's exchange reflect two very different images of democracy. In a liberal democracy, such as the U.S., interest groups lobby for their own preferred outcomes. This self-interested, free-for-all of organized forces creates policy. While anyone can attempt to influence the bureaucracy, corporations are highly organized actors for whom the stakes are high and self-interest is clear. A liberal (meaning pro-business) position is the likely outcome. The extreme version of this neo-liberal view of democracy was summed up by British Prime Minister Margaret Thatcher's famous assertion, "there is no such thing as society, only individuals (including presumably corporate persons) and their families."



Disraeli Knew What He Was Talking About

By Scott Goddin

It has become a common occurrence to hear governments, organizations, unions, and corporations refer to studies or quote statistics produced by think tanks. These policy research institutions have become a tool for organizations to influence the opinions of government, policy makers, and the public. Those engaged in the debate about trade liberalization often cite statistics related to globalization's impact on employment and income as authoritative. While public figures and authors often intend to deepen and clarify the debate, the story behind their numbers underscores the difficulty in accurately measuring globalization's impact. As with most public pronouncements on public policy, the key is often getting beyond the sound bite.

The Oregon AFL-CIO (www.orafcio.unions-america.com) claims that Oregon lost over 11,000 jobs as a result of NAFTA (the North American Free Trade Agreement). This conclusion comes from an analysis by the Economic Policy Institute (EPI), a Washington D.C. think tank. EPI based its findings on a federal study of potential job losses due to the substitution of lower cost goods for American goods, or the actual movement of jobs to Canada and Mexico. This figure is often cited in articles and at conferences such as the *Oregon's Future* Panel on International Trade at Portland State University.

The EPI analysis bases its figures on an analysis done for the Federal Trade Adjustment Assistance (TAA) program. This program provides support and re-training to workers displaced by trade agreements so people think the study, along with the EPI, must be authoritative. Without scratching the surface of the numbers in the EPI's report, it is easy to conclude that NAFTA is harmful to Oregon's economy. The problem with this conclusion is that the number, 11,000, is based only on the certification of employees or companies eligible to receive assistance under the TAA program when, and if, jobs are lost. It is also important to know that the TAA program provides support whether or not trade agreements are the sole contributing factor.

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In a 'social democracy', found in some European and Latin American nations, a highly integrative electoral process seeks the most representative government possible. After the election, however, a strong state sets policy with much less pressure from interest groups and fewer opportunities for corporations to capture the agenda. Thus, once elected a social democratic leader like Prime Minister Lula da Silva of Brazil pursues policies without reopening the debate. Is this less democratic? It is certainly less liberal, meaning less deferential to the rights of individual human and corporate persons.

Globalization brings these different types of democracy into direct contact with each other. In WTO and FTAA negotiations, delegations from these different systems have to try and reach agreement. The basic question of who government serves, the needs of the individual or the needs of society, runs just below the surface of much of the free trade/fair trade debate. To cite just one example, should the rules that govern international investment protect the rights of global investors or the rights of communities?

Success Brings Division

While the fair trade camp gains confidence and momentum, it is also apparent that success will bring out divisions in the fair trade position. At the *Oregon's Future* Forum I criticized US and EU agricultural subsidies because they lower world agricultural prices threatening the livelihoods of developing world farmers. Tim Nesbitt was equally critical of the Bush administration's decision to revoke steel tariffs that were intended to protect American workers from cheaper imports.

When the audience responded favorably to both criticisms, Karen Wilde Goddin interjected a perfectly accurate observation: "This audience can't...think subsidies are wrong on the agricultural side and then say that tariff protections are good. They are basically the same thing. Tariffs are a subsidy to the steel industry. I don't think we can have it both ways."

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I offer two observations in support of the audience's seemingly contradictory response. First, from a human needs perspective, food is fundamentally different than steel. Agricultural subsidies that decrease the economic viability of millions of poor farmers threaten the food security for the world's most vulnerable families and communities.

Second, while Karen is correct that subsidies and tariffs largely create the same result (distorted prices that keep inefficient producers in business), they are used in different circumstances. Governments use revenue to implement subsidies, while tariffs (which are basically sin taxes) are revenue neutral or even fund generating. This is why we sometimes refer to tariffs as poor country subsidies. For poor governments, tariffs may be the only way the government can afford to protect domestic producers. Rich

countries can and do use both subsidies and tariffs as protectionist tools. Therefore, an equitable liberalization process would level the field by eliminating subsidies first and then turn toward multilateral reductions of tariffs—exactly the opposite of the position taken by the US and the EU in WTO negotiations. The ease with which the EU used the WTO to overturn the steel tariffs, while developing nations have been unable to do anything about U.S. agricultural subsidies, shows the degree to which WTO rules favor the rich and powerful nations.

These caveats aside, Karen's observation exposes an inherent division in the fair trade alliance that will only worsen post-Cancun. In 1999, Seattle protesters used the phrase "teamsters and turtles together at last" to celebrate cooperation between organized labor unions and the non-governmental organizations (NGOs) that focus on social and environmental justice worldwide. Both saw the WTO as an institutionalization of rules that negatively affected their constituencies and were united in their opposition to the status quo. The 'no' of Seattle and Cancun will force these fair traders to articulate alternative 'yes' visions of the future. Two very different visions are already emerging. One seeks policies that defend American jobs and American sovereignty. The other attacks global inequity and wants to raise the standard of living for the more than one billion people who live on less than \$500 per year. As the anti-globalization movement gains the opportunity to be for something, global solidarity will be much harder to maintain.

Getting to the Big Questions

Perhaps the most encourag-

ing thing I heard at the *Oregon's Future* panel discussion was the debate emerging around the broader social choices that will shape our economy in the future. People want to talk about what all of this means in their daily lives, what structural issues put us in this position, and what we can do to make the economy more responsive to our needs and desires. For those of us who spend our days dissecting insider reports of negotiating sessions in Geneva, trying to analyze what a particular formula for tariff reduction might mean to a specific sector, it is important to take a step back and put this minutia in the context of monumental changes taking place in global and local political economies. As Marty Hart-Landsberg reminded us, the trade issue defines exports as success without asking what we actually want our economy to look like.

During the discussion of steel tariffs, Karen Wilde Goddin encouraged the audience to take a step back and look at the structural problems that make U.S. labor so uncompetitive. As Karen indicated, private health insurance is a major cost to American business but not to European and Asian employers. This goes some way to explain the jobless recovery created by investors who think strategically about where to take on new workers. If manufacturing industries would rather hire European workers, knowing that they will have to give them six weeks of paid vacation, it may be time to look at universal health care rather than tariffs, as the fastest way to improve the competitiveness of the American workforce. The fact that Karen Wilde Goddin and Barbara Dudley, from radically different perspectives, expressed some agreement on this controversial

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A close examination of how the program operates reveals that actual job layoffs total a fraction of certifications. It is a fact that of the 99,497 U.S. workers who were certified nationally under NAFTA-TAA in its first three years, only 12,193 actually applied for benefits during that time.

Comparatively, of the 11,000 positions certified in Oregon, less than 1,500 received TAA-related benefits in February 2004. Over fifty percent of the certifications in Oregon were of firms in the building and wood products sector, an industry that has been under pressure for a variety of environmental and regulatory reasons for almost two decades. Significantly, the EPI's conclusion does not account for potential job creation resulting from NAFTA. Elsewhere in the study EPI analysts acknowledge net job loss from NAFTA actually number only 5,359, a much less exciting figure in a state manufacturing workforce of over 200,000. (*The TAA program is currently being reviewed to ensure that qualified people actually obtain benefits. —Ed.*)

It is important to look at the board of directors and financial supporters of EPI to understand how easily biases of commission, omission, or interpretation may occur. On the twenty-one member board of directors sit nine representatives from a Who's Who of organized labor including, Richard L. Trumka, Secretary-Treasurer, AFL-CIO and Andrew L. Stern, President, Service Employees International Union. In addition, EPI receives a quarter of its funding from labor sources. It's not surprising that the Oregon AFL-CIO, as well as anyone else opposed to globalization, would site an EPI study to support opposition to NAFTA and trade liberalization.

Those opposed to globalization will often accuse the Administration and institutions like the World Bank of promoting a bias in favor of trade liberalization and expansion. In fact, people on both sides of the issue do cite many studies out of context to support their views. However, in 2003, the U.S. International Trade Commission, an independent agency within the Federal Government, undertook an analysis of the impact on the U.S. economy of trade agreements negotiated over the last twenty years. After an extensive survey of academic analyses (in over four hundred pages), its executive summary concluded,

"...trade agreements contributed to the growth in U.S. trade, but that other sources of trade growth were probably at least as important as the trade agreements. Research

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reviewed in this report links trade growth to higher average living standards, increased productivity, and increased earnings inequality. Direct links between the trade agreements and these phenomena are much weaker. A number of issues warrant further research, including the effects of unmeasured policy changes and growth in foreign outsourcing.”

Not exactly a ringing endorsement but reflective of the level of complexity of the impacts at issue. Even the assumptions of the staid World Bank have been questioned by Joseph Stiglitz, its former chief economist and former chairman of President Clinton’s Council of Economic Advisers. In a nutshell, Stiglitz argues that free trade and open markets could be forces for good—reducing poverty in the Third World, sharing technology across borders, moving investment from rich nations to poor. But he says that trade has been “badly managed” by the rich countries and the International Monetary Fund (IMF), causing unnecessary instability and hardship in the developing world. This highly public (at least in trade and academic circles) debate underscores the need to carefully consider the issues.

The purpose of my argument is not to denigrate the local AFL-CIO, EPI, or the current Administration, but to encourage a healthy skepticism. The pedigree of information and its source needs to be considered carefully as we make decisions and participate in public discourse. Users of skewed statistics may argue with the best of intentions for environmental or worker rights agendas and still be right. However, an honest analysis of figures can serve critically to move the debate beyond rhetoric to a constructive dialogue; One more likely to mitigate adverse impacts of liberalization when they occur. It remains important that we examine carefully the message and the messenger to assure the integrity of the debate, the results of the dialogue, and people’s trust in the information we give them.

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subject indicates that structural issues such as healthcare policy may be reaching political ripeness.

A much broader, but equally important set of questions and answers, concerned the long-term sustainability of the economy in the face of environmental imperatives. One member of the audience asked what impact a peak and decline in oil production would mean for an economy dependent on trade and transportation. Another asked even more broadly, what kind of world are we leaving our grandchildren?

Joseph Kruzich put his faith squarely in the invisible hand of the market as a mechanism for restructuring society: “The market would anticipate that there is a need to develop alternative energy sources and they (market actors) would develop them.”

Marty Hart-Landsberg argued that a politically engaged citizenry, with full information about real costs and benefits, should make these decisions.

The essential question in the free trade/fair trade debate is the choice between the automatic mechanism of the market and the intentional mechanism of politics. Do we want the structure of our lives to be shaped by local or global markets, by local or global politics, or by some combination of these? If there is a role for governance, even if it is just as a regulator of free market activity, should that governance be democratically accountable, and what type of democracy should that be?

Because of the public’s new knowledge, public debates like the one in December move more quickly into controversial questions of policy and structure.

Those of us who engage in these debates for a living can no longer hide behind a superficial review, orthodox theory, and the assump-

tion that the audience will not understand more detail. I left the forum feeling optimistic that people in the Pacific Northwest are making connections between the politics of trade agreements and broader social questions. Now, if the experts can just catch up with them, we can begin having a debate that reflects new realities and the real shape of our future.



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