THE CHANGING TRADING ORDER

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Outline

I. THE GATT/WTO
II. NESTED SYSTEMS AND TRADE
III. THE FUTURE OF THE TRADING ORDER
IV. CATEGORIZING TRADING ARRANGEMENTS
V. REGIONALISM
VI. INTERREGIONALISM
VII. SECTORALISM
VIII. BILATERALISM
## GATT/WTO Trade Rounds

<table>
<thead>
<tr>
<th>Year</th>
<th>Round</th>
<th># of Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>Geneva</td>
<td>23</td>
</tr>
<tr>
<td>1949</td>
<td>Annecy</td>
<td>13</td>
</tr>
<tr>
<td>1950–51</td>
<td>Torquay</td>
<td>38</td>
</tr>
<tr>
<td>1955–56</td>
<td>Geneva</td>
<td>26</td>
</tr>
<tr>
<td>1961–62</td>
<td>Dillon</td>
<td>26</td>
</tr>
<tr>
<td>1963–67</td>
<td>Kennedy</td>
<td>62</td>
</tr>
<tr>
<td>1973–79</td>
<td>Tokyo</td>
<td>99</td>
</tr>
<tr>
<td>1986–94</td>
<td>Uruguay</td>
<td>125</td>
</tr>
<tr>
<td>2001–Dead?</td>
<td>Doha</td>
<td>&gt;151</td>
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## The Doha Round

**Seattle: First Effort, December 1999.**
Held in Violent anti-globalization protesters delay the opening of the summit and then contribute to conflict within the member countries.

Trade negotiations never begin.

**Doha: Second Effort, November 2001.**
WTO membership is expanded to include China and Taiwan. Trade talks and a 3-year time-frame are agreed upon.

The agenda will include: anti-dumping laws, trade liberalization in agriculture, the environment, and the exemption of cheap medicines from intellectual property laws.

**Cancun, September 2003**
- Developed countries initially unwilling to cut agricultural subsidies
- Developing countries refuse to address issues of investment, competition, government procurement and trade facilitation
- Developing countries resist, encouraged by NGOs and say “no”
The End of the WTO Doha Round?

**Geneva, July 2004**
- Abolish all export subsidies, work to remove domestic subsidies
- New deadline extended to December 31, 2005
- Observers skeptical on likely progress

**Geneva, July 2006**
- Round suspended
- EU blames U.S.
- The round is “between intensive care and the crematorium”
  
  *Indian Commerce and Industry Minister Kamal Nath*

**Current Status**
- Last ditch effort to come to a compromise
- Countries actively pursuing alternatives

Global Liberalization

**Advantages**
- Multi-issues coverage enables mobilization of broad domestic and transnational coalitions
- Prevents introduction of new barriers during negotiations
- Likely to receive the highest level of political and public attention

**Disadvantages**
- Large membership creates complexity in negotiations and formulating procedures
- High start-up costs for new rounds of negotiation
- Higher stakes can trigger heated debates on social and economic consequences
Toward a Unipolar Security World

Pentagon’s military budget vs. Soviet military budget in 1985: about equal

• 2011 Pentagon budget request: $711 billion
  - US nearly 50% of world defense spending
  - 5 times of Russia’s ($125 billion estimate by 2011)
  - 4–8 times of China’s ($78 billion official/most likely double this)
  - India ($32.1 billion)
Opposing Protectionism in a Bipolar World (1950s-1980s)

“Legislation to establish import quotas on Japanese textiles would be unfortunate…it would restrict trade when the free world must depend for so much of its strength on the expansion of trade and economic viability of countries such as Japan.”

- John Foster Dulles, Secretary of State, June 26, 1953 in opposing protection

Post-Cold War Trade Conflict (1990s)

“Finally, the end of the Cold War has had important ramifications for the West itself. Absent concern about Soviet aggression, the traditional alliance among the United States, Western Europe and Japan is showing patent signs of strain…”

“U.S.-Japanese relations, plagued by rancorous trade disputes, are more troubled than they have been in decades.”

“It has reduced the likelihood of war between major powers while increasing the possibility of lesser conflicts.”

-James A. Baker III, former U.S. Secretary of State, November 13, 1995
Security and Trade in a Post 9-11 World?

“A successful [trade] round would not only significantly enhance world economic growth but also answer terrorism with a firm reaffirmation of our commitment to open and free societies.”

- Alan Greenspan, Chairman of the Federal Reserve, Sept. 19, 2001

“For heaven sakes, September 11 should wake up all the liberals and all those who talked about wide open borders and free trade and globalization. That's all fine to talk about, but you can't talk about it when you see the ashes of the World Trade Center.”

-Pat Buchanan, Former reform party presidential candidate, CNN LIVE, October 23, 2001

The Old Trading Order

General Agreement on Tariffs and Trade (GATT)

REGIONAL AGREEMENTS (EU, NAFTA)

SECTORAL AGREEMENTS (MFA, VERs)
Which Trading Order?

![Diagram showing different trading orders: Globalism dominates, Sectoralism dominates, Regionalism dominates, and Equal.]

How to Liberalize Trade?

If possible we hope that this ... liberalization will occur in the Uruguay Round. If not, we might be willing to explore a market liberalizing club approach through minilateral arrangements or a series of bilateral agreements. While we associate a liberal trading system with multilateralism, bilateral or minilateral regimes may also help move the world toward a more open system.

-- James Baker, January 1988

Obviously, the best policy option is to build on the WTO framework...However, it may take regional and bilateral initiatives to jumpstart the WTO. Alternatively, we may have to undertake the regional and bilateral initiatives just to avoid discrimination by our more active trading partners.

-- U.S. Business Roundtable, February 2001
### Categorizing Modes of Trade Liberalization

<table>
<thead>
<tr>
<th>PRODUCT SCOPE</th>
<th>ACTOR SCOPE</th>
<th>Unilateral</th>
<th>Bilateral</th>
<th>Minilateral</th>
<th>Multilateral</th>
</tr>
</thead>
<tbody>
<tr>
<td>Few products</td>
<td></td>
<td>(1)</td>
<td>(3)</td>
<td>(5)</td>
<td>(9)</td>
</tr>
<tr>
<td>(sectorialism)</td>
<td></td>
<td>Specific product liberalization (Phase 3B1)</td>
<td>U.S.-Canada auto agreement</td>
<td>Japan-Singapore bilateral</td>
<td>Early Voluntary Sectoral Liberalization (EVSL)</td>
</tr>
<tr>
<td>Many products</td>
<td>(2)</td>
<td>Unilateral broad scale liberalization</td>
<td>(4) Australia-New Zealand CER</td>
<td>(6) Mexico-Chile free trade agreement</td>
<td>APEC, ASEM, EU-Mercosur (interregionalism)</td>
</tr>
<tr>
<td>(sectorialism)</td>
<td></td>
<td></td>
<td>(interregionalism)</td>
<td>(interregionalism)</td>
<td>(globalism)</td>
</tr>
</tbody>
</table>

1) Why do different types of trade arrangements arise?
2) How do they evolve?
3) What are the implications of different types of arrangements for the trading system?
Article XXIV of the GATT/WTO

- “substantially all trade”
- duties and regulations faced by non-members
  “shall not on the whole be higher or more restrictive”
- either a customs union or free trade area

Three challenges

I. **WIDENING**
THE ACCEPTANCE OF NEW MEMBERS AND ISSUES

II. **DEEPENING**
INCREASING STRENGTH OF THE ORGANIZATIONS AND INTENSITY OF INTEGRATION ACTIVITIES

III. **NESTING**
RECONCILING REGIONAL ARRANGEMENTS WITH EACH OTHER AND WITH GLOBAL ACCORDS
Minilateral Regional Liberalization

- **Advantages**
  - Easier to gain consensus from a smaller group
  - Power asymmetry in the group may lead to faster agreement

- **Disadvantages**
  - Danger of discriminating trading blocs
  - May harm global liberalization by creating entrenched conflicting interests, incompatible norms and rules, and trading diversion
  - May increase resistance to accession of poorer neighbors

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Shaping a New North America

North America
- Population: 434.7 million
- GDP: $13.779 trillion
- Trade $723.5 billion

Canada
- Population 32.8 million
- GDP $1.023 trillion
- General Trade $456.7 billion

United States
- Population 295.7 million
- GDP $11.75 trillion
- Trade $456.7 billion

Mexico
- Population 106.2 million
- GDP $1.006 trillion
- Trade $12.6 billion

Relative Dependence on Trading Partners

Canada

1987: 72.8% of total CAN exports
2008: 77.7% of total CAN exports

1987: 23.7% of total US exports
2008: 20.1% of total US exports

United States

Mexico

1992: 76.4% of total MEX exports
2008: 82.2% of total MEX exports

1992: 9.1% of total US exports
2008: 11.7% of total USA exports


Pre-Cursors

1. 1965 Canada-United States Automotive Agreement
2. 1965 Maquiladora Program (Mexico)
3. 1989: CUFTA (Canada-US Free Trade Agreement)
**Mexican Interests in NAFTA**

1. Access to the U.S. market driven by fear of blocs and growing U.S. restrictions
2. Lock-in the Salinas reforms after the debt crisis and Mexico's entry into the GATT in 1986
3. Attract foreign capital
4. Encourage the repatriation of flight capital

**U.S. Interests in NAFTA**

1. Growth and stability in Mexico by reinforcing Mexican reforms; fear of a massive influx of immigrants
2. Improve U.S. export opportunities in Mexico
3. Provide a base for U.S. production to compete with Asia and European firms
4. More leverage in discussions with EU and Japan
Canadian Interests in NAFTA

1. Fear of exclusion; prefer being “in” rather than “out.”
2. Access to Latin American markets
3. Latin America is an important recipient of Canadian foreign direct investment
4. Reduce its dependency on US exports
5. Partnership with Latin America countries as a counterweight to US power in economic matters

The Creation of Free Trade

1. Nine thousand categories of goods had their tariffs removed by 2008.
2. Average tariffs on trade in all goods ranges from 0.1-0.7% among member countries.
3. Mexico’s has made the largest reductions: the average tariff on American-made products has dropped from 10% to 2.9 %.
4. United States has made smaller reductions in the restrictions on foreign imports. For instance, U.S. average tariffs on Mexican goods fell from 2.07% to 0.65 %.
WTO Plus Provisions

North American Agreement on Environmental Cooperation

North American Agreement on Labor Cooperation

Created supranational commissions but with limited powers of enforcement

Little progress on services liberalization with exception of financial services

Evolving Interregionalism
Asia-Pacific Economic Cooperation (APEC)

• Formed in 1989
• 21 members

• Commitment to create “free trade in the area” by 2020 for all members and 2010 for developed members
• Key principle: Open regionalism

21 Members of APEC

Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Philippines, Russia, Singapore, South Korea, Taiwan, Thailand, United States, Vietnam
Interregional Liberalization

Advantages
- Brings together regionally disparate groups
- Increases market size and promotes efficiency
- May help promote broader trade liberalization through the WTO

Disadvantages
- May harm global liberalization by diverting energy to transregionalism vs. WTO
- May leave out whole regions that are perceived to be “less important”

Multilateral Open Sectoral Approaches

“...the global-round approach to trade talks, involving all WTO participants in a comprehensive agenda requiring bargains across several sectors, may have outlived its usefulness. Focused negotiations on trade issues in specific sectors among a smaller group of WTO members are a promising alternative. Such negotiations have produced significant agreements in information technology, telecommunications, and financial services.”

Multilateral Open Sectoralism

**The Information Technology Agreement, ITA (1996)**
- computers
- telecommunications
- software
- semiconductors
- printed circuit boards

**The Basic Agreement on Global Telecommunications, BTA (1998)**
- telephony and fax
- data transmission
- mobile satellite services
- paging
- mobile data services

**The Financial Services Agreement, FSA (1999)**
- banking
- insurance
- securities
- asset management
- financial information

Advantages:
- Agreements follow domestic business interests
- Gains for domestic industries when global or regional trade efforts stall

Disadvantages:
- Open sectoralism buys off winners
- Tariff reductions in sectors with already low tariffs worsen distortions
Bilateralism

Advantages:
- Easier to start negotiations
- Can achieve political objectives and payoff quickly

Disadvantages:
- Patchwork of agreements a challenge for firms
- May marginalize “less desirable” countries
- Weaker countries may be easily pressured

130 Reciprocal Trade Agreements over the last 10 years
90 Agreements in the last 5 years, approaching 300 agreements!
Bilateralism Reigns Supreme...

The European Union is poised to begin negotiating wide-ranging bilateral trade deals whether the crisis-hit Doha round succeeds or fails. Peter Mandelson, the European trade commissioner, is pushing the new policy as he believes Brussels has not done enough to help business cope with ever-increasing competition from Asia and the US. 
*July 10, 2006, Financial Times*

"Where India is concerned, we have entered into bilateral trade agreements. We will pursue our bilateral trade agreements."
*Kamal Nath, Indian Commerce and Industry Minister*  
*25 July 2006, BBC News*

Who’s Lobbying?

“…unlike the last global round of negotiations, when movie studios, drug companies, software makers, banks and manufacturers coalesced into a formidable free-trade lobby, the enthusiasm this time has been narrower…

Peter Mandelson, EU trade commissioner, blames lack of business lobbying for turning the Doha Round into what he called "the Ag-only round".. protectionist agricultural lobbies dominate.  
*December 12, 2005, Financial Times*
1. The global trading system is increasingly marked by a variety of trading arrangements
2. Regionalism consists of a variety of different types of trading arrangements that may have very different implications
3. An *open sectoral* approach may look tempting, but it may undermine the coalition for free trade
4. Bilateralism is on the rise and poses dangers for the WTO and interregional accords
5. Nesting regional and transregional arrangements within the WTO should be our goal