

2.7: Trade Controversies

Learning Objectives

After reading this section, students should be able to ...

1. Identify some of the ways the world has stepped closer to free trade recently.
2. Identify some of the ways the world has stepped further from free trade recently.

In the spring of 2009, the world was in the midst of the largest economic downturn since the early 1980s. Economic production was falling and unemployment was rising. International trade had fallen substantially everywhere in the world, while investment both domestically and internationally dried up.

The source of these problems was the bursting of a real estate bubble. Bubbles are fairly common in both real estate and stock markets. A bubble describes a steady and persistent increase in prices in a market—in this case, in the real estate markets in the United States and abroad. When bubbles are developing, many market observers argue that the prices are reflective of true values despite a sharp and unexpected increase. These justifications fool many people into buying the products in the hope that the prices will continue to rise and generate a profit.

When the bubble bursts, the demand driving the price increases ceases and a large number of participants begin to sell off their product to realize their profit. When this occurs, prices quickly plummet. The dramatic drop in real estate prices in the United States in 2007 and 2008 left many financial institutions near bankruptcy. These financial market instabilities finally spilled over into the *real sector* (i.e., the sector where goods and services are produced), contributing not only to a world recession but also to a new popular attitude that capitalism and free markets may not be working very well. This attitude change may fuel the antiglobalization sentiments that were growing during the previous decade.

As the current economic crisis unfolded, there were numerous suggestions about similarities between this recession and the Great Depression in the 1930s. One big concern was that countries might revert to protectionism to try to save jobs for domestic workers. This is precisely what many countries did at the onset of the Great Depression, and it is widely believed that that reaction made the Depression worse rather than better.

Since the economic crisis began in late 2008, national leaders have regularly vowed to avoid protectionist pressures and maintain current trade liberalization commitments made under the World Trade Organization (WTO) and individual free trade agreements. However, at the same time, countries have raised barriers to trade in a variety of subtle ways. For example, the United States revoked a promise to maintain a program allowing Mexican trucks to enter the United States under the North American Free Trade Agreement (NAFTA), it included “Buy American” provisions in its economic stimulus package, it initiated a special safeguards action against Chinese tire imports, and it brought a case against China at the WTO. Although many of these actions are legal and allowable under U.S. international commitments, they are nevertheless irritating to U.S. trading partners and indicative of the rising pressure to implement policies favorable to domestic businesses and workers. Most other countries have taken similar, albeit subtle, protectionist actions as well.

Nevertheless, this rising protectionism runs counter to a second popular sentiment among people seeking to achieve greater liberalization and openness in international markets. For example, as the recession began, the United States had several free trade areas waiting to be approved by the U.S. Congress: one with South Korea, another with Colombia, and a third with Panama. In addition, the United States has participated in talks recently with many Pacific Rim countries to forge a Trans-Pacific Partnership (TPP) that could liberalize trade around the region. Simultaneously, free trade area discussions continue among many other country pairings around the world.

This current ambivalence among countries and policymakers is nothing new. Since the Great Depression, trade policymaking around the world can be seen as a tug of war between proponents and opponents of trade liberalization. Even as free trade advocates have achieved trade expansions and liberalizations, free trade opponents have often achieved market-closing policies at the same time; three steps forward toward trade liberalization are often coupled with two steps back at the same time.

To illustrate this point, we continue with a discussion of both recent initiatives for trade liberalization and some of the efforts to resist these liberalization movements. We’ll also look back to see how the current policies and discussions have been shaped by events in the past century.

Doha and WTO

The Doha Round is the name of the current round of trade liberalization negotiations undertaken by WTO member countries. The objective is for all participating countries to reduce trade barriers from their present levels for trade in goods, services, and agricultural products; to promote international investment; and to protect intellectual property rights. In addition, member countries discuss improvements in procedures that outline the rights and responsibilities of the member countries. Member countries decided that a final agreement should place special emphasis on changes targeting the needs of developing countries and the world's poor and disadvantaged. As a result, the Doha Round is sometimes called the Doha Development Agenda, or DDA.

The Doha Round was begun at the WTO ministerial meeting held in Doha, Qatar, in November 2001. It is the first round of trade liberalization talks under the auspices of the WTO, which was founded in 1994 in the final General Agreement on Tariffs and Trade (GATT) round of talks, the Uruguay Round. Because missed deadlines are commonplace in the history of GATT talks, an old joke is that GATT really means the “General Agreement to Talk and Talk.”

In anticipation, WTO members decided to place strict deadlines for different phases of the agreement. By adhering to the deadlines, countries were more assured that the talks would be completed on schedule in the summer of 2005—but the talks weren't. So members pushed off the deadline to 2006, and then to 2007, and then to 2008, always reporting that an agreement was near. As of 2009, the Doha Round has still not been completed, testifying to the difficulty of getting 153 member countries to conceive of a trade liberalization agreement that all countries can accept mutually.

This is an important point: WTO rounds (and the GATT rounds before them) are never finalized until every member country agrees to the terms and conditions. Each country offers a set of trade-liberalizing commitments, or promises, and in return receives the trade-liberalizing commitments made by its 152 potential trading partners. This is a much stronger requirement than majority voting, wherein coalitions can force other members into undesirable outcomes. Thus one reason this round has so far failed is because some countries believe that the others are offering too little liberalization relative to the liberalization they themselves are offering.

The DDA is especially complex, not only because 153 countries must reach a consensus, but also because there are so many trade-related issues under discussion. Countries discuss not only tariff reductions on manufactured goods but also changes in agricultural support programs, regulations affecting services trade, intellectual property rights policy and enforcement, and procedures involving trade remedy laws, to name just a few. Reaching an agreement that every country is happy about across all these issues may be more than the system can handle. We'll have to wait to see whether the Doha Round ever finishes to know if it is possible. Even then, there is some chance an agreement that is achievable may be so watered down that it doesn't result in much trade liberalization.

The primary stumbling block in the Doha Round (and the previous Uruguay Round too) has been insufficient commitments on agricultural liberalization, especially by the developed countries. Today, agriculture remains the most heavily protected industry around the world. In addition to high tariffs at the borders, most countries offer subsidies to farmers and dairy producers, all of which affects world prices and international trade. Developing countries believe that the low world prices for farm products caused by subsidies in rich countries both prevents them from realizing their comparative advantages and stymies economic development. However, convincing developed country farmers to give up long-standing handouts from their governments has been a difficult to impossible endeavor.

To their credit, developed countries have suggested that they may be willing to accept greater reductions in agricultural subsidies if developing countries would substantially reduce their very high tariff bindings on imported goods *and* bind most or all of their imported products. Developing countries have argued, however, that because this is the Doha “Development” Round, they shouldn't be asked to make many changes at all to their trade policies; rather, they argue that changes should be tilted toward greater market access from developing into developed country markets.

Of course, this is not the only impasse in the discussions, as there are many other issues on the agenda. Nevertheless, agricultural liberalization will surely remain one of the major stumbling blocks to continued trade liberalization efforts. And the Doha Round is not dead yet, since continuing discussions behind the spotlight reflect at least some sentiment around the world that further trade liberalization is a worthy goal. But this is not a sentiment shared by all, and indeed opponents almost prevented this WTO round from beginning in the first place. To understand why, we need to go back two years to the Doha Round commencement in Seattle, Washington, in December 1999.

The WTO Seattle Ministerial—1999

Every two years, the WTO members agreed to hold a ministerial meeting bringing together, at minimum, the trade ministers of the member countries to discuss WTO issues. In 1999, the ministerial was held in Seattle, Washington, in the United States, and because it was over five years since the last round of trade discussions had finished, many members thought it was time to begin a new round of trade talks. There is a well-known “bicycle theory” about international trade talks that says that forward momentum must be maintained or else, like a bicycle, liberalization efforts will stall.

And so the WTO countries decided by 1999 to begin a new “Millennial Round” of trade liberalization talks and to kick off the discussions in Seattle in December 1999. However, two things happened, the first attesting to the difficulty of getting agreement among so many countries and the second attesting to the growing opposition to the principles of free trade itself.

Shortly before the ministers met, they realized that there was not even sufficient agreement among governments about what the countries should discuss in the new round. For example, the United States was opposed to any discussion about trade remedy laws, whereas many developing countries were eager to discuss revisions. Consequently, because no agreement—even about what to talk about—could be reached, the start of the round was postponed.

The second result of the meeting was a cacophony of complaints that rose up from the thousands of protesters who gathered outside the meetings. This result was more profound if only because the resulting disturbances, including property damage and numerous arrests, brought the issues of trade and the WTO to the international stage. Suddenly, the world saw that there was substantial opposition to the principles of the WTO in promoting trade and expanded globalization.

These protests at the Seattle Ministerial were perhaps directed not solely at the WTO itself but instead at a variety of issues brought to the forefront by globalization. Some protesters were there to protest environmental degradation and were worried that current development was unsustainable, others were protesting child labor and unsafe working conditions in developing countries, and still others were concerned about the loss of domestic jobs due to international competition. In many ways, the protesters were an eclectic group consisting of students, labor union members, environmentalists, and even some anarchists.

After Seattle, groups sometimes labeled “antiglobalization groups” began organizing protests at other prominent international governmental meetings, including the biannual World Bank and International Monetary Fund (IMF) meetings, the meeting of the G8 countries, and the World Economic Forum at Davos, Switzerland. The opposition to freer trade, and globalization more generally, was on the rise. At the same time, though, national governments continued to press for more international trade and investment through other means.

Ambivalence about Globalization since the Uruguay Round

Objectively speaking, ambivalence about trade and globalization seems to best characterize the decades of the 1990s and 2000s. Although this was a time of rising protests and opposition to globalization, it was also a time in which substantial movements to freer trade occurred. What follows are some events of the last few decades highlighting this ambivalence.

First off, trade liberalization became all the rage around the world by the late 1980s. The remarkable success of outward-oriented economies such as South Korea, Taiwan, Hong Kong, and Singapore—known collectively as the East Asian Tigers—combined with the relatively poor performance of inward-oriented economies in Latin America, Africa, India, and elsewhere led to a resurgence of support for trade.

Because the Uruguay Round of the GATT was on its way to creating the WTO, many countries decided to jump on the liberalizing bandwagon by joining the negotiations to become founding members of the WTO. One hundred twenty-three countries were members of the WTO upon its inception in 1995, only to grow to 153 members by 2009.

Perhaps the most important new entrant into the WTO was China in 2001. China had wanted to be a founding member of the WTO in 1995 but was unable to overcome the accession hurdle. You see, any country that is already a WTO member has the right to demand trade liberalization concessions from newly acceding members. Since producers around the world were fearful of competition from China, most countries demanded more stringent liberalization commitments than were usually expected from other acceding countries at a similar level of economic development. As a result, it took longer for China to gain entry than for most other countries.

But at the same time that many developing countries were eager to join the WTO, beliefs in freer trade and the WTO were reversing in the United States. Perhaps the best example was the struggle for the U.S. president to secure trade-negotiating authority. First, a little history.

Article 1, section 8 of the U.S. Constitution states, “The Congress shall have the power...to regulate commerce with foreign nations.” This means that decisions about trade policies must be made by the U.S. Senate and House of Representatives, and *not* by the U.S. president. Despite this, the central agency in trade negotiations today is the United States Trade Representative (USTR), an executive branch (or presidential) agency. The reason for this arrangement is that the U.S. Congress has ceded authority for these activities to the USTR. One such piece of enabling legislation is known as trade promotion authority (TPA).

TPA enables the U.S. president, or more specifically the USTR, to negotiate trade liberalization agreements with other countries. The legislation is known as *fast-track authority* because it provides for expedited procedures in the approval process by the U.S. Congress. More specifically, for any trade agreement the president presents to the Congress, Congress will vote the agreement, in its entirety, up or down in a ye or nay vote. Congress agrees not to amend or change in any way the contents of the negotiated agreement. The fast-track procedure provides added credibility to U.S. negotiators since trade agreement partners will know the U.S. Congress cannot change the details upon review.

TPA has been given to the U.S. president in various guises since the 1930s. In the post–World War II era, authority was granted to the president to negotiate successive GATT rounds. A more recent incarnation was granted to the president in the Trade Act of 1974. TPA enabled negotiations for the U.S.-Israel free trade area (FTA) in 1985 and NAFTA in 1993. However, this authority expired in 1994 under President Clinton and was never reinstated during the remainder of his presidency. The failure to extend TPA signified the growing discontent, especially in the U.S. House of Representatives, with trade liberalization.

When George W. Bush became president, he wanted to push for more trade liberalization through the expansion of FTAs with regional and strategic trade partners. He managed to gain a renewal of TPA in 2001 (with passage in the House by just one vote, 216 to 215). This enabled President Bush to negotiate and implement a series of FTAs with Chile, Singapore, Australia, Morocco, Jordan, Bahrain, Oman, Central America and the Dominican Republic, and Peru. Awaiting congressional approval (as of December 2009) are FTAs with South Korea, Colombia, and Panama.

Despite these advances toward trade liberalization, TPA expired in 2007 and has not yet been renewed by the U.S. Congress, again representing the ambivalence of U.S. policymakers to embrace freer trade. Another indication is the fact that the FTAs with South Korea, Colombia, and Panama were submitted for approval to Congress before the deadline for TPA expired in 2007 and these agreements still have not been brought forward for a vote by the U.S. Congress.

While the United States slows its advance toward freer trade, other countries around the world continue to push forward. There are new FTAs between China and the Association of Southeast Asian Nations (ASEAN) countries, Japan and the Philippines, Thailand and Chile, Pakistan and China, and Malaysia and Sri Lanka, along with several other new pairings.

Future prospects for trade liberalization versus trade protections are quite likely to depend on the length and severity of the present economic crisis. If the crisis abates soon, trade liberalization may return to its past prominence. However, if the crisis continues for several more years and if unemployment rates remain much higher than usual for an extended time, then demands for more trade protection may increase significantly. Economic crises have proved in the past to be a major contributor to high levels of protection. Indeed, as was mentioned previously, there is keen awareness today that the world may stumble into the trade policy mistakes of the Great Depression. Much of the trade liberalization that has occurred since then can be traced to the desire to reverse the effects of the Smoot-Hawley Tariff Act of 1930. Thus to better understand the current references to our past history, the story of the Great Depression is told next.

? Key Takeaways

- Recent support for trade liberalization is seen in the establishment of numerous free trade areas and the participation of many countries in the Doha Round of trade talks.
- Recent opposition to trade liberalization is seen in national responses to the financial crisis, the protest movement at the Seattle Ministerial and other venues, and the failure in the United States to grant trade promotion authority to the president.

This page titled [2.7: Trade Controversies](#) is shared under a [CC BY-NC-SA 4.0](#) license and was authored, remixed, and/or curated by [Babu John-Mariadoss](#) via [source content](#) that was edited to the style and standards of the LibreTexts platform.

- [2.7: Trade Controversies](#) by [Babu John-Mariadoss](#) is licensed [CC BY-NC-SA 4.0](#). Original source: <https://opentext.wsu.edu/cpim/>.