Liberal trade policies, crucial to global economic recovery

MOHAMED ARIFF

The political processes that shape the United States' trade policy are intricate and complicated. Unlike in countries where the executive has dominant authority over trade policy, it is Congress that enjoys this privilege in the US, thanks to Article 1 of the constitution - notwithstanding new procedures (the so-called fast track authority) granting the executive some leeway for vetting trade agreements.

It is noteworthy that the Office of the US Trade Representative (USTR) within the White House is subject to special congressional oversight.

Free traders' worst fears are that the US will turn up the heat on its trading partners, with the Democratic Party at the helm and the domestic economy in the doldrums. The Democrats, who control both the presidency and a Congress notoriously tough on trade policy, seem likely to succumb more readily to domestic protectionist pressures that tend to rise during economic slumps, with the Republicans staying on the sidelines.

As a matter of fact, labour and environmentalist groups - two of the most powerful and influential elements in the Democratic nexus - have always exerted a disproportionate pressure on the party's trade policy positions. It is no surprise, therefore, that the Democrats in the House of Representatives have opposed all Free Trade Agreements (FTAs).

Trade policy under the Bush administration was marked by the doctrine of "competitive liberalisation", which shifted the focus from multilateral negotiations to bilateral and regional negotiations. A political downside to all this revolves around the highly divisive issue of labour and environment, every time Congress votes on individual FTAs.

Following the election of Democrat majorities in both houses of Congress in 2006, the perception is that US trade policy has turned tougher, if the FTA negotiations with Panama, Peru, Columbia and South Korea were any measure. This had to be expected, with a large majority of the 42 newly elected Democrats in the House of Representatives having gained office on anti-global platforms. Experience shows that US trade negotiators can be overruled with ease.

President Barack Obama did not mince his words in criticising Nafta (North American Free Trade Area) and overseas investments by American multinational corporations when he was a candidate in the presidential race. Obama seems to have mellowed somewhat since, as he is now able to see the big picture from the Oval Office and understands that open and liberal trade policies are crucial to the recovery of both the US and the global economy.

But, there are limits to how much Obama can push on the trade front, as he has to come to terms with domestic economic and social agendas that run counter to those of international trade and investment.

The US Congress has become increasingly restive with regard to the division of power between the executive and the legislature over trade policy, and the indications are that the balance may shift in favour of the legislature. This does not bode well for freer trade, as domestic politics and exigencies tend to trump international obligations and responsibilities, especially with an ailing domestic economy.

The fact remains, however, that the US is one of the most open economies in the world with a remarkably liberal trade regime that allows relatively easy market access for exporting countries. It is also a fact that strong consumer demand in the US had fuelled rapid economic growth in East Asia's export-dependent economies, while East Asia's financial exposure to the US has also been enormous.

This raises two fundamental concerns, namely East Asia's vulnerability to the US' economic cycles and East Asia's contribution to the imbalances in the US economy.

It is not hard to understand how the US financial/economic crisis is transmitted to East Asia through financial and trade channels. East Asia's role in the imbalance story is far more complex, as East Asia continues to register trade surpluses, which in turn are recycled to finance US current account deficits so that the US will continue to import from East Asia.

The solution to the problem of vulnerability is not more barriers to trade, which will make the world poorer, but better macroeconomic management. The US' current account imbalance calls for adjustments on both sides of the divide, underscoring the need for the US to save more and spend less, and East Asia to save less and spend more.

The imbalance can only be resolved if East Asia imports more from the US and depends less on the US market for its exports by creating its own intraregional demand.

The remedy for the global economic downturn lies in more trade, not less. If crisis-hit countries can create demand for one another's products, in addition to domestic demand for their own products, in addition to domestic demand for their own products, the battered world economy can return to the growth trajectory.

However, the shift in the US focus from the WTO (World Trade Organisation) negotiations to bilateral FTAs is a cause for concern, not only because the US is capable of imposing its will on smaller trading partners through FTAs, but also because the FTA route is discriminatory, clumsy and unwieldy.

Since the slow progress of the Doha Round provides an excuse for bilateral negotiations, it is of paramount importance to expedite the WTO process, but the impetus for this is unlikely to come from North America or Western Europe. East Asia will, therefore, have to play a key role in reviving the Doha Round by making bold offers proactively.

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