Globalization Commentaries

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First published by the *Triple Crisis Blog*
March 17, 2010

Obama's New Trade Agenda: What happened to multilateralism and development?

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The world has been holding its breath to see what Barack Obama's campaign promise of a renewed multilateralism would bring to the world trading system. Global trade talks have soured since 2008 when the Bush administration refused to grant the developing countries the right to safeguard their farmers in the event of import surges.

After nearly a year in office, Obama finally unveiled his trade agenda just last week. Rather than bringing a breath of fresh air into the world trading system in a time of crisis, the administration's agenda has brought gasps across the world—especially in developing countries.

Obama's agenda frames trade as a zero-sum game. Exports rule, imports are to be avoided. Indeed, the cornerstone is a pledge to double U.S. exports in five years. To meet that goal Obama will: create an "Export Promotion Cabinet" to be headed by the CEO's of two large US Multinational firms, Boeing and Xerox; provide $2 billion in export credits for small and medium sized enterprises in the U.S.; "get tough" on enforcing our existing commitments at the World Trade Organization, and revive Bush-era trade deals with Colombia, Panama, South Korea, and the Pacific Rim.

First, this strategy won't bring a doubling of exports. Worse still, ripping open markets and exporting a global deregulatory agenda will wreak havoc in the developing world and knock the wind out of U.S. sails in the long run.

To be sure, the U.S. needs to increase exports and decrease imports, thereby shrinking the trade deficit and striking a better macroeconomic balance for the nation. One would have to breathe in more than air to think the U.S. could double exports with this strategy though. According to official estimates, the flawed Colombia deal would only boost U.S. exports by at most 0.17 percent, and estimates of the Doha Round say U.S. exports would only jump between 2 and 5 percent. The U.S. already has trade deals with most of the major nations in the Pacific Rim deal (the negotiations are re-named "Trans-Pacific Partnership"), such as Chile, Australia, Peru, and Singapore—amounting to 87 percent of all US exports that would be part of such a deal. Breathing is also heavy for bi-lateral investment deals with China, India, Vietnam, and others.

Getting tough on U.S. trading partners by taking them to the WTO and to other tribunals at every turn won't get the U.S. there either—especially when the U.S. fails to honor cases where the U.S. is in the wrong. The U.S. has been dragging its feet and yelling "protectionist!" atBrazil (cotton) and Mexico (trucking) for asking the U.S. to pony-up for protectionism in the U.S. Hypocrisy of this sort won't double exports or win the U.S. any points with the world's developing countries.

Reviving the Bush strategy of bi-lateral and regional deals concedes that the U.S. can't compete in a (far from perfect) global rules-based system where developing countries also have a say in the negotiations. Rather than playing a multi-lateral game at the WTO, going one-on-one with a developing nation makes it much harder for a developing country to push back.

In a recent study I did with Rachel Denae Thrasher, we showed that Bush-era trade deals make it much harder for developing countries to put in place effective development strategies. These deals force developing countries to: open their markets to highly concentrated and subsidized agri-businesses; import patent and innovation regimes so virtually all the rents from innovation flow to higher income countries; allow multinational firms to enter and leave their nations at will; and perhaps worst of all, force nations to open their capital accounts regardless of their level of development.

Many developing countries, especially China, Brazil, South Africa and to some extent India, have been growing faster than the U.S. precisely because of a commitment to economic diversification and sequenced integration with the world economy, where the government plays a significant role that would be outlawed under U.S. trade deals.

Those countries that sign on to U.S. deals don't do so well; just look at Mexico under NAFTA. In a recent piece with Eduardo Zepeda and Tim Wise we show that despite the fact that Mexico's exports and foreign investment close to tripled under NAFTA, Mexico's economy only grew at an annual per capita rate of approximately 1.5%. Foreign investment wiped out local firms, so domestic investment slid to 19% of GDP, compared to a pre-NAFTA level of 24% of GDP. Estimates vary, but Mexico probably gained about 500,000 jobs in the manufacturing sector since NAFTA took effect, but the country lost at least two million in agriculture, as cheap imports of corn and other commodities flooded the newly liberalized market. Poverty and inequality remain grave, and the Mexican government puts economic costs of environmental degradation at 10 percent of GDP per year.

Trying to knock the developing world when its just getting on its feet is short-sighted for the U.S. The U.S. sold almost nothing to China in 1980 when literally 99 percent of its people were in poverty. In 2009 China was the U.S.'s third largest export market—despite the fact that China still houses almost 300 million people (equal to the population of the US) living on less than $2 per day. Allowing the world's economies to grow and be stable is not only fair, it benefits the U.S. economy as well.