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Obama's "New" Trade Policy: What Happened to Multilateralism?

By Kevin Gallagher
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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 developing countries the right to safeguard their farmers in the event of surging imports.

After more than a year in office, Obama finally unveiled his trade agenda this month. Rather than bringing a breath of fresh air into the world trading system in a time of crisis, the administration's agenda has elicited 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 CEOs of two large U.S. multinationals, Boeing and Xerox; provide $2 billion in export credits for domestic small- and medium-sized enterprises; "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, America needs to increase exports and decrease imports, thereby shrinking the trade deficit and striking a better macroeconomic balance for the nation, but one would have to be high on cargo ship exhaust to think the United States will double exports with the current strategy. According to official estimates, the flawed Colombia deal would only boost U.S. exports [PDF] 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 United States already has trade deals with most of the major nations in the Pacific Rim deal (the negotiations are renamed "Trans-Pacific Partnership"), such as Chile, Australia, Peru, and Singapore—amounting to 87 percent of all U.S. exports that would be part of such a deal. The United States is also planning for bilateral 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 help either—especially when the United States fails to honor cases where it is in the wrong. America has been dragging its feet and yelling "protectionist!" at Brazil (cotton) and Mexico (trucking) for asking that America pony up for domestic protectionism. Hypocrisy of this sort won't double exports or win any points with the world's developing countries.

Reviving the Bush strategy of bilateral and regional deals concedes that the United States cannot compete in a (far-from-perfect) global rules-based system where developing countries also have a say in the negotiations. Rather than playing a multilateral game at the WTO, going one-on-one with developing nations makes it much harder for them 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 agribusinesses; adopt 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. Regarding capital account liberalization, given the IMF's change of heart on this subject, the United States looks very lonely in its push to outlaw capital controls in its trade agreements.

Many developing countries, especially China, Brazil, South Africa, and to some extent India, have been growing faster than the United States 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 percent. Foreign investment wiped out local firms, so domestic investment slid to 19 percent of GDP, compared to a pre-NAFTA level of 24 percent 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 2 million jobs 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 the economic costs of environmental degradation at 10 percent of GDP per year. On the campaign trail Obama pledged to renegotiate NAFTA, but there are no signs of that promise in the new agenda.

Knocking down the developing world just when it is getting on its feet is shortsighted for the United States. America sold almost nothing to China in 1980 when literally 99 percent of its people were in poverty. In 2009, China was the third-largest export market for the United States—despite the fact that China still has almost 300 million people (an amount equal to the U.S. population) 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.

Kevin P. Gallagher is an associate professor of international relations at Boston University and author of the forthcoming book *The Dragon in the Room: China and the Future of Latin American Industrialization*.