A Grand Trade Bargain

David E. Sanger

CLOSING THE WEALTH GAP

THE CLINTON ADMINISTRATION came to Washington eight years ago with a straightforward plan to reorient American foreign policy. To spur a lagging economy, it put America’s commercial interests—promoting exports and opening markets—on par with the country’s traditional security interests. It was a strategy born of the “it’s the economy stupid” campaign. To its enthusiasts, this was a long-overdue adjustment in the country’s foreign policy priorities, a recognition that the Cold War had ended and that Europe and Japan had long put their competitive interests first. To Clinton’s critics, it was low diplomacy, a perversion of America’s global role.

As Clinton leaves office, this argument over where America’s diplomatic priorities should lie seems quaint and hopelessly out-of-date. Eight years of growing economic interdependence around the world have all but ended the debate. Moreover, the political and economic dynamics of America’s world role have completely reversed. Today there is no question the American economy reigns supreme—at least for the moment. Japan has been flat on its back for so long that few in the White House even remember when they were consumed with opening Japan’s markets for American cars, apples, and cell phones. At the same time, the concept of how economic forces shape foreign policy and vice versa has become infinitely more complex. If most of the first Clinton term was all about boosting American exports, the past five years have been about stabilizing the rest of the globe, from

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Mexico to Asia to South America. The new administration comes to power with the far greater challenge of preserving America’s place atop the world economy while defusing enormous resentments about U.S. economic, cultural, and military might. Washington must convince other nations—both poor and rich—that it is shaping a world economic system for their benefit as well as its own.

This task would be a nearly impossible sales job for any country, much less one that most of the globe perceives as an arrogant, self-interested “hyperpower” determined to preserve its lead. The new president’s challenge is made even more difficult by the fact that the Clinton administration’s efforts to reshape the global economy in America’s image hit a brick wall in Seattle late in 1999—and this campaign has never gotten back on its feet. It falls to the new president to pick up the pieces and convince the rest of the world that the United States has a vision far broader than simply using its diplomatic power to enhance the profits of American firms.

The popular image of the Seattle protests, now emblazoned in the American consciousness, was formed from televised scenes of a few hundred anarchists heaving bricks through storefronts under a cloud of smoke and tear gas. That mess was cleaned up months ago. But the real Seattle rebellion, which has yet to be cleaned up, occurred in the hotel rooms and conference centers above the street chaos. It did not make for vivid television, so it got a lot less attention. For the first time, the developing nations—with help from some wealthy countries that saw an opportunity to protect themselves—resisted what they view as a relentless American onslaught to reshape the world economy on Washington’s terms.

Clinton was caught oddly unprepared for this confrontation. The man who has done more than any other politician in memory to define the choices for countries facing globalization seemed deaf to the backlash. His words at Seattle confirmed the fears of other nations: America actually had a hidden agenda to impose labor and environmental standards on the rest of the world, undercutting the few competitive advantages of the world’s poorest nations.

So these countries threw on the brakes. It was a remarkable rebellion against American primacy, an assertion that growing American power would meet growing international resistance. Youssef Boutros-Ghali, Egypt’s savvy trade minister, seemed to speak for much of the world when he asked, “Why, all of a sudden, when Third-World labor has proved to be competitive, do industrial countries start feeling concerned about our workers?” No one in the Clinton administration offered a very convincing response.

A YEAR OF LIVING DANGEROUSLY

Once the presidential election campaign began, it became clear that Vice President Al Gore had no interest in restarting the Seattle talks—or in taking any other trade initiatives. His union supporters were already enraged at the White House for Clinton’s support of the North American Free Trade Agreement in 1993. After they marched against the World Trade Organization (WTO) in
Seattle, they set defeat of the China trade bill as their next objective. They failed in that round, but Gore paid a price. He lost critical union support to Green Party candidate Ralph Nader, who had spurred many of the Seattle protests and claimed that Gore and Clinton had sold out to global corporations. Had Nader not been a factor, Gore would have won the presidency quite handily.

Partly because of the campaign, one of the signature accomplishments of Clinton’s second term—the use of economic relationships for much broader diplomatic purposes—slowed dramatically last year. But there were some accomplishments. The White House managed to secure $435 million for debt relief to highly indebted nations, and Congress passed both the Africa trade bill and the China trade bill. The president’s remarkable trip to Vietnam and the warmth of the welcome in Hanoi showed how the lure of economic engagement can be put to far broader diplomatic uses. Clinton capitalized on the opportunity to make his now-familiar argument that investment and prosperity would come to Vietnam only if its authoritarian rulers loosened their hold on both the economy and society. This was economic diplomacy at its best.

But as Clinton also discovered on his trip, the just-completed trade accord with Vietnam sharpened that country’s internal struggles over the pace of reform and openness—just as the China trade bill divided the leadership in Beijing. Conservative leaders in both countries see those agreements as the economic incarnations of the Trojan horse, in this case sent by the United States to undermine their authoritarian governments. They are not entirely wrong.

Clinton said explicitly during the debate over the China trade bill that freer trade would over time weaken the authority of the Communist Party in Beijing. In Vietnam, he called the new trade accord a “declaration of interdependence.” Hanoi’s pragmatists had no problem with that phrase; they had learned a bitter lesson over the preceding five years, when they slowed economic reforms and then watched foreign investors flee and the economy suffer. But the leadership split over global economic engagement became evident as soon as Clinton went to visit Le Kha Phieu, the Communist Party chief who has undercut many of those market-oriented reforms. “We have seen the collapse of the U.S.S.R.,” Phieu said, and yet “we are still on our feet, we have reaffirmed socialism.” He described how Vietnam was now self-sufficient in producing rice—and then equated U.S. trade policy today with U.S. imperialism during the Vietnam War.

Le Kha Phieu is not likely to win this fight over the long term. Without Cold War patrons like the Soviet Union, the country’s economic survival depends on attracting outside investment. But the encounter demonstrated how America’s decade of economic diplomacy has bred both huge opportunities and enormous resentments. The new president will have to make some fundamental choices during his first few months in office. Will he continue on the path that Clinton set out or retreat from the effort to put trade at the center of America’s foreign policy agenda? Will he use America’s commercial relationships and the WTO to force nations to protect their workers, clean up their toxic waste dumps, and ease up on their dissidents? Can America see its way clear to a grand bargain that could fling open its doors to goods from the poorest nations—the half of the world that lives on less than $2 a day—in return for some of the long-term changes that America
SEATTLE’S BITTER FRUITS

IN RETROSPECT, it is clear that the Seattle fiasco was a long time in the brewing. For years the world’s developing nations were never taken seriously in global trade negotiations. Their economies were too small, and there were too many of them. Instead, the big trade accords in the 1990s were negotiated among the United States, Japan, Canada, and Europe. These countries set the agendas and precoooked the results before global negotiations started up. They could afford to do so because the rest of the world desperately needed access to their markets. But the WTO’s creation changed the balance of power. Now every economy has an equal vote, at least on paper. It is like the U.N. General Assembly—without a Security Council of great powers. Disenfranchised nations suddenly have the ability to upset the agenda of the large powers. At Seattle they used that power for the first time.

The drama played out as groups of countries met to sort out which issues would be negotiated in the next round of global trade talks. It was a confused scene from the start. Europe and Japan were suffering from market-opening fatigue; a decade of lowering import barriers was about as much as Japanese and French farmers and other strong interest groups could take. They insisted that their huge, trade-distorting agricultural subsidies had to be kept off the table. And even though U.S. industries lacked a unified agenda, they unequivocally rejected negotiations that might limit Washington’s powers to prevent the “dumping” of sensitive goods, such as steel, in America at below-market prices. Disputes also emerged over American efforts to expand the marketing of genetically modified agricultural products.

The infighting among the large powers made it all the easier for the developing nations to thwart any step toward establishing global labor and environmental standards. The negotiations quickly turned ugly. During the talks, a senior American official called a reporter—who was down in the streets watching environmentalists in turtle suits walking arm-in-arm with the Teamsters—to describe the scene in the “green room” where the talks were taking place. “The Pakistanis just told us, ‘We will blow up the negotiations,’ and the Indians, who are usually talking about blowing up the Pakistanis, say they are going to help,” the official said. Also willing to help were a host of other developing nations, unified by a sense of grievance that the global trading system already put them at a disadvantage. At a time when America and other major economies were insisting on more market openings and faster economic reforms, the developing countries desperately wanted to slow the pace. A few, in fact, wanted to leap off the train.

The United States insisted that it sought only a “study group” within the WTO to examine the issues of labor and environmental standards. But everyone at the chaotic meeting knew what that meant. The “study group” would inevitably suggest that the WTO be given powers to impose trade sanctions against countries that pay their sweatshop workers too little or tolerate factories that
spew forth toxic pollutants. No doubt with one eye to the approaching presidential election, Clinton reaffirmed that fear when he told a Seattle newspaper that the group “should develop these core labor standards, and then they ought to be a part of every trade agreement,” enforceable by trade sanctions.

Most Americans who heard Clinton that day probably felt that his long-term goal sounded reasonable. After all, who is in favor of exploiting workers and ruining the environment? But in the rest of the world, his comments had the ring of a new era of American-led economic imperialism. An organization dominated by Western powers, run by Western rules, and based in Geneva would ultimately gain the power to determine how much Nigerian textile workers had to be paid or what Bangladesh had to spend on toxic-waste treatment.

Such issues are, in the end, questions of sovereignty. No country is happy with a WTO that reaches far inside national borders, orders changes in that country’s laws, or authorizes trade sanctions against nations that ignore its rulings. But in fact the system has worked relatively well so far. In most of the handful of cases that the United States has lost before the WTO, the Clinton administration has quietly changed the offending regulations. When a panel of judges ruled that American environmental rules discriminated against imported gasoline, the rules were altered. And when another panel of judges found that tax breaks for offshore subsidiaries of American corporations amounted to an illegal subsidy, the White House persuaded Congress to rewrite the offending passage of the tax code (even though the result was still not to Europe’s liking). In short, Washington seems willing to heed the rulings of a panel of non-American judges as long as the political stakes are sufficiently low.

With some notable exceptions, other nations have done the same. Of course, the system is still fragile, and no one yet knows what will happen when a major WTO decision sends workers or farmers into the streets. But the world experimented with the alternative—a trade organization with no real powers of enforcement—for 40 years, and the system simply did not work.

The challenges facing the new president are twofold. At home, he must convince Congress and the public that a strong WTO ultimately benefits more American workers and industries than it hurts. That has been a relatively easy case to make in these prosperous times. But it will become much harder once the economy slows and pressure builds for the government to protect American jobs by limiting cheap imports. Then the WTO maybe cast as a job-destroyer, issuing rulings that make it harder and harder for Congress to protect workers against “unfair” international competition. “We’ve had it easy,” one of Clinton’s economic advisers said recently. “The next guy won’t.”

At the same time, the next president must find a way to convince the rest of the world that the WTO and other international financial institutions such as the International Monetary Fund are not simply tools of the United States. Since the Asian financial crisis and the Seattle debacle, it is accepted wisdom around the world that both institutions are U.S.-dominated, and that Washington calls the tune so that the rules of world trade benefit the most competitive economy on earth. Whether the complaints are valid or just stirred by politicians looking for a convenient foreign scapegoat, the political backlash is real and growing.

Take the recent Asia-Pacific Economic Cooperation group summit in Brunei.
In the early 1990s, APEC summits were dedicated to speeding the opening of markets, and in theory that is still their mission. But the political dynamic has changed since the Asian financial crisis. Leaders now spend more time listening to the complaints of Malaysia’s prime minister, Mahathir bin Mohamad, and others who argue for restrictions on global capital flows. Mahathir is a long, long way from winning his case before an international audience. But at the Brunei meeting, it was clear that weak leaders around Asia, from Japan to Indonesia to the Philippines, have little interest in triggering further upheaval by opening markets while they are desperately trying to forestall mass layoffs.

The Asian leaders concluded the Brunei summit by vaguely endorsing new global trade negotiations in 2001. But they offered no suggestions about how to resolve the issues that blew up in Seattle. And their declaration was made without any force. As soon as it passed, smaller countries began complaining about the pernicious effects of corporate mergers on their economies, reiterating their fears that Wall Street firms would exploit market openings to take over their domestic financial systems. Those concerns may be exaggerated, and the conspiracy theories are likely overdrawn. But in the politics of globalization, perception is political reality. The new president ignores this reality at his peril.

A GRAND BARGAIN

IF EVER there was a moment for a grand bargain between rich and poor, now is the time. The broad outlines of such a deal are clear. The world’s poorest nations need hard evidence that they will benefit from a global economy rather than become its first victims. For their part, rich nations need allies in building a trading system that relies on the rule of law, protects intellectual property, and creates a set of minimum global standards on protecting workers and the environment. But reaching the bargain will require political flexibility on all sides—exactly what has been missing in the trade debates around the world.

As a first step, the United States should fully open its markets for goods produced by the world’s poorest nations, particularly those where workers live on $2 a day or less and where aid programs are making little progress in raising living standards. Those countries chiefly export textiles and apparel and basic agricultural products such as sugar. They account for a minuscule fraction of the $1.2 trillion in goods and services that the United States imports annually. Visitors to Wal-Mart may be surprised to discover that the United States still limits any imports; it seems as if everything on the shelves is from China. But substantial barriers remain. When Congress passed the Africa trade bill last year, it kept in place significant restrictions on textile imports to protect a dwindling population of American workers. A well-financed lobby has spent years protecting restrictions on sugar imports that keep sugar prices artificially high.

Eliminating those barriers will trigger the kinds of protectionist fights that have reverberated on Capital Hill for 200 years. There will be charges that Washington is selling out American textile workers in the Carolinas and sugar refiners in Florida. But it no longer makes economic sense for American workers to produce the cheapest textiles, just as it no longer makes sense for them to
produce wooden wash-boards or the simplest handheld calculators. Cutting all barriers to imports would spur these industries to move up-market, just as the import of foreign-made memory chips in the 1980s forced American semiconductor makers to focus on the high-end microprocessors that ultimately fed the productivity boom of the 1990s.

Opening America’s markets is not the only concession Washington should make. Throughout the Seattle talks, the Clinton administration refused to allow U.S. antidumping laws to become a subject of international negotiation. Such laws are designed to prevent foreign countries from flooding the American market with goods that are priced sharply below the fair market price or the cost of production. But the application goods of these laws has often been arbitrary, and the world sees them as disguised protectionism. In Seattle, the Clinton administration contended that the rest of the world had to discuss common labor and environmental standards—but refused to allow an international discussion of common standards for dumping.

“It sounded greedy, and it fueled the objections to America’s role,” conceded one senior official in the Clinton administration. But the White House had little room to operate. Just prior to the Seattle meeting, more than 300 members of Congress wrote the president a letter warning that they would work to defeat any deal that threatened America’s ability to apply its dumping laws unilaterally. Gore did not want to cross the labor unions or steel makers who had just pressed to use the dumping laws to stop a surge of foreign steel imports. Meanwhile, the WTO has ruled that the United States violated global trade rules when it applied those dumping laws to slow steel exports from South Korea. But other countries, starting with Mexico, are copying the American strategy of using dumping laws, often without American-style legal processes. Nations will increasingly use those laws to block American goods unless international standards are set.

For its part, the United States should insist on several concessions from the developing world. First, it should secure an agreement to enforce intellectual property and copyright protections, particularly for content on the Internet. That would cost developing nations almost nothing today and set a precedent that would allow the world’s most prolific content provider, the United States, to protect its economy. Second, Washington should insist on the beginnings of a discussion about minimum labor and environmental protections. Democrats and Republicans are still wrapped up in a circular (and often pointless) argument about whether such “social issues” should be part of global trade agreements—and therefore enforceable through the WTO—or separately dealt with by the relatively toothless International Labor Organization. But the message to the developing world should be simple: Listen to the market. Consumers are increasingly insisting that products carry certifications about manufacturing conditions. For years, tuna cans have carried messages guaranteeing that the fish were caught in dolphin-safe nets—because environmental and consumer activists insisted on it, and Starkist heard them.

Meanwhile, Nike, Reebok, and others have joined the Fair Labor Association, which inspects hundreds of factories every year for signs that child labor is being used or that workers are in the factory more than 60 hours a week. American
labor unions complain that the monitoring is spotty and that the Fair Labor Association makes no effort to determine whether workers are making a living wage. All that is true. But the inspections make developing nations worry about labor standards immediately instead of waiting ten years for the completion of trade negotiations. And the message is clear: Comply with the “voluntary” standards or forget about selling your products in the world’s largest market.

Over time, the voluntary standards are bound to evolve into national and international rules. But it will be a long, painful, and sometimes violent process. It was the Supreme Court of India, not the WTO, that ordered the Delhi state-level government to clean up or close 90,000 small factories that spew untreated waste into the Yamuna River. The result was several days of violent demonstrations led by workers who feared their jobs were at stake. Those were, in essence, the anti-Seattle protests against labor and environmental standards. The reaction would no doubt have been even more intense had the court order come from foreign judges instead of Indian ones.

The Indian experience should be a lesson for Congress as well. It is a warning to Democrats that writing labor and environmental standards into trade agreements is complicated business. Those kind of standards are still politically impossible for India and nations like it. The trick is to encourage India as it promotes its own internal regulations without provoking a backlash against foreign intervention.

That lesson also holds for Republicans, who have so far opposed labor and environmental rules as “distortions” of free trade. George W. Bush did nothing during the campaign to promote a rethinking of that position. But the reality of the global market is clear. It is no longer possible to think about products without considering how they are made, just as it is no longer possible to think about governments without considering how they rule over their land and their people. That is why a global grand bargain is needed.

Of course, no such bargain is a panacea. American hegemony will engender resentment around the world no matter what trade deals are struck, how much debt is forgiven, or how many reassuring statements the White House issues. Nations look out for their economic interests first and always will. But the political task of the next decade is to define those interests as broadly as possible. The global economic order will not work for the United States, Europe, and Japan unless it also works for India, Brazil, and South Africa. A system that seems rigged to aid the wealthiest and most competitive countries will be undermined by the poorest and least competitive. Selling that thought to Congress and to voters will rank among the new president’s most difficult tasks.