

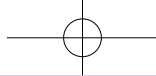
UNIT 1

Global Trade

International trade is the exchange of capital, goods, and services across international borders or territories. In most countries, such trade represents a significant share of gross domestic product (GDP). According to China's customs statistics, total import and export of China in 2013 was US\$4.16 trillion. Among that, exports amounted to US\$2.21 trillion, and imports amounted to US\$1.95 trillion. While international trade has been present throughout much of history, its economic, social, and political importance has been on the rise in recent centuries.

The World Trade Organization (WTO) is the only international organization dealing with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably, and freely as possible. There are a number of ways of looking at the World Trade Organization. It is an organization for trade opening. It is a forum for governments to negotiate trade agreements. It is a place for them to settle trade disputes. It operates a system of trade rules. Essentially, the WTO is a place where member governments try to sort out the trade problems they face with each other.

The WTO is run by its member governments. All major decisions are made by the membership as a whole, either by ministers (who usually meet at least once every two years) or by ambassadors or delegates (who meet regularly in Geneva).



Text A

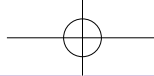
Pre-Reading Questions

- ① How did the 2007–2008 financial crisis affect global trade? Can you give some examples to explain your opinion?
- ② What is trade protectionism? And what forms of protectionism do you know?
- ③ Who is David Ricardo? What opinion does he have about comparative advantage?

Global Trade: The Road to Ruin

In Shanghai not long ago, I took a walk from my hotel along Nanjing Road to the Bund, the promenade on the banks of the Huangpu River where visitors from China's hinterland gather to gaze across the river, awestruck, at the ultramodern skyscrapers of Pudong that have transformed the city's skyline in not much more than a decade. It wasn't what was on the far side, though, that got my attention. It was the traffic on the river itself, great container ships, chuffing lighters, bulk carriers, every sort of waterborne vessel you could imagine carrying every imaginable cargo, churning up the waters. It's not what one is used to in the West. In the US and Europe, we have prettified our rivers, turning city waterfronts into places where genteel folk ride their bikes or snack in the open air. But in Asia—not just in Shanghai, but along the Chao Phraya in Bangkok, or in Hong Kong's harbor—waterways are not pretty at all. They are busy places of work and commerce, the arteries of trade, that age-old process of exchange that, more than anything else, has lifted millions of Asians out of poverty in two generations. At least, they were. The economic crisis has hit world trade hard. Ports throughout the world are dramatically less busy than they were just a few months ago; air traffic is way down. Exports from Japan were almost 50% less in February compared with the same month in 2008; China's exports were down 26% in February. The World Trade Organization is predicting global trade will shrink by 9% this year, the steepest annual decline since World War II. This contraction is not only deep, it is also a latter-day rarity: Global trade has increased continuously year after year since 1982.

The main culprits are not hard to divine. As households in the rich world, battered by a collapse in the values of their assets, start saving again, their appetite for new cars and consumer electronics has diminished. And as banks try to rebuild their shattered balance sheets, capital that would once have been used to finance trade is staying in their vaults.



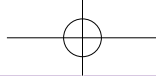
But if reduced demand and financial flows explain the immediate cause of the downturn in trade, a different—and potentially more damaging—specter looms: the return of protectionism. In a recent report, the World Bank found that although the G20 nations pledged themselves to avoid protectionist measures when they met in Washington last November, no fewer than 17 of them have, since then, “implemented measures whose effect is to restrict trade at the expense of other countries.”

The bank listed some of those measures: Russia has raised tariffs on used cars; Argentina imposed new licensing arrangements for imports; China banned Irish pork; India banned Chinese toys. No fewer than 13 countries have granted subsidies to various parts of the automobile industry. And the bank didn’t mention the nasty spat that has broken out between the US and Mexico; the US has stopped a program that allowed Mexican trucks on American roads, and Mexico has retaliated with tariff increases. Robert Zoellick, the World Bank president, said, “Leaders must not heed the siren song of protectionist fixes. Economic isolationism can lead to a negative spiral of events such as those we saw in the 1930s, which made a bad situation much, much worse.”

Zoellick got it just about right. Economic historians will long argue about the relative impact of trade restrictions—led by the US Smoot-Hawley Tariff Act of 1930—on the scale of the Great Depression. The US economy was much less integrated into a global economic system then than it is now. But given the retaliation from America’s trading partners after the new tariffs were applied, few would argue with Zoellick’s assessment that the contraction of trade in the 1930s made the long downturn worse than it needed to be. “Protectionism,” British Prime Minister Gordon Brown told *Time* recently, “is the road to ruin.”

Which raises the question, one that trade economists have to answer every 10 years or so: If protectionism is so ruinous, why does everyone reach for it in tough times? To answer that, you have to go back to why trade is good for you. The idea that an exchange of what you have for what I have makes both of us better off must be as old as the first moment anyone swapped cowrie shells for some cooked fish. Organized trade is ancient: Silk did not get to Rome because the Romans figured out sericulture; someone imported it from China. But it took until 1817, and the work of the British political economist David Ricardo, for anyone to cloak a theory around something that humans had been doing since time immemorial. Ricardo showed that if nations concentrate on what they do best—those things in which they have a comparative advantage—and trade for the rest, their welfare will increase. The magic of trade is that it encourages economic specialization. If the fruits of that specialization can be freely exchanged, everyone benefits.

“Everyone,” of course, is an aggregate. One difficulty with trade, and the reason that it becomes controversial at times of economic hardship, is that while its benefits are widely spread and difficult to measure, its costs are concentrated and often easy to see. The gains



manifest themselves, for example, in low prices at the supermarket. But consumers are many, and they are not politically organized. By contrast, those who can be identified as losing out because of trade—like automobile workers who have lost their jobs to imports—are relatively few and are easy to marshal into political communities with clear messages.

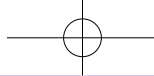
There are massive ironies in the “protection” of those damaged by imports. If you listen to many politicians, especially American ones, you would think that imports are bad, a signifier of economic failure. Trade only “works” if a country runs a surplus. (A logical impossibility when extended to all countries, but never mind.) Free-traders scream: No! It is imports, not exports, that are the whole point of trade; we trade precisely so we can enjoy those goods in whose production others have a comparative advantage. But that message is not easy to get across in hard times.

There is a second difficulty in making the case for trade during downturns. Trade is a global phenomenon; politics is national. When unemployment lines lengthen, politicians understandably feel that they have to respond to the immediate needs of their constituents, not those in a faraway country of which they know little.

Yet it is precisely that mind-set, however natural it may be, that most needs challenging. It does not take any simplistic endorsement of the benefits of economic globalization to understand that we live in an interconnected world. It isn't just goods that move around the planet. The flow of people from one nation to another—people with all their myriad hopes and resentments—has been taking place on a scale never seen before. Prosperity does not solve everything, God knows, but the world will be a safer place if those who have recently escaped poverty are not now told by those who have never known it that they have to accept less than they dreamed of. “We cannot deny people their aspirations,” said Nandan Nilekani, co-chairman of Indian IT giant Infosys Technologies, in an interview by *The New York Times*' Thomas Friedman at the New York Public Library this week. Do so, and those denied aspirations will mutate into something much more dangerous.

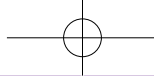
As Brown says, the key issues that the world faces today cannot be dealt with by rich nations acting alone. That is as true of the regulation of global financial markets as it is of the relief of poverty. Climate change cannot be tackled by any one nation, or any group of nations, however rich and powerful they may be; any solution that does not include within its policy parameters India and China is worthless.

Poverty, climate change, and economic dislocation are all issues that, if not handled properly, could engender real political instability. Trade, just by virtue of its existence, makes international cooperation concrete. With all trade's potential to improve lives—so richly realized on those Asian riverbanks—it makes our world a safer and a better place. Now is not the time to turn our backs on it.



Comprehension

- I. Choose the best answer to each of the following questions with the information you get from the text.
- Why does the author talk about the Huangpu River in the first paragraph?
 - To show the prosperity of trade in China.
 - To make a comparison between Chinese rivers and Western ones.
 - To sketch a picture of trade to introduce readers to the topic of the text.
 - To begin the text with the busy Huangpu River to show that China's trade is prosperous.
 - Which of the following does NOT explain the sharp decline of global trade?
 - Households in rich countries start to save again, which causes their demand for cars and electronics to decline.
 - Cash flow is reduced as banks try to rebuild their shattered balance.
 - Trade protectionism returns.
 - There will be many great container ships carrying every imaginable cargo in the ports.
 - What can we learn from Paragraph 6?
 - Trade started with the deal that someone exchanged cowrie shells for fresh fish.
 - Romans imported silk from China.
 - Ricardo thinks that if nations concentrate on what they do best and trade for the rest, their welfare will increase.
 - Everyone benefits from trade.
 - Now that protectionism is so ruinous, why does everyone resort to it during tough times?
 - Because trade's benefits are widely spread and difficult to measure, and its costs are concentrated and often easy to see.
 - Because trade only "works" if a country runs a surplus.
 - Because they have to provide jobs for those who are losing out during tough times.
 - Because leaders in one country have to respond to the immediate needs of their constituents, not those in a faraway country of which they know little.
 - Which of the following is NOT true according to the text?
 - Generally speaking, rivers in the US and Europe are prettier than those in China.
 - Economic isolationism can lead to a negative spiral of events such as those we saw in the 1930s, which made a bad situation much, much worse.
 - Many leaders reach for protectionism because they haven't realized that we live in an interconnected world.
 - India and China are so important that any solution that does not include within its policy parameters India and China is worthless.



II. Discuss with your partners and answer the following questions in your own words.

1. Why have many countries granted subsidies to various parts of the automobile industry since the financial crisis broke up?
2. What could poverty, climate change, and economic dislocation engender? And why?
3. The message that we trade precisely so we can enjoy those goods in whose production others have a comparative advantage is impossible to get across in hard times. Why?
4. Do you think that global trade can make our world a safer and better place? Please explain your reasons.

Usage & Translation

I. Fill in the blanks with the words or phrases in the box. Change the form when necessary.

specialization
diminish

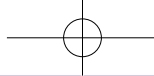
endorse
impose

subsidy
at the expense of

1. Of course, certain types of measure have attracted the attention of specialist agreements; _____ are the most notable example.
2. When recognizing the need of members to maintain such regulation, the trade agreement will often _____ disciplines upon their use of the exceptions.
3. Quantitative limitations, for instance on the number of suppliers given access to a market, might appear to favor local incumbents _____ foreign suppliers.
4. Developed countries tend to _____ in the production of low-value, high-volume basic grains with the use of capital-intensive methods.
5. They extend their protection to those who exploit their status or celebrity to _____ the products and services of others.
6. The rulings of that organization cannot add or _____ the rights and obligations provided in the covered agreements.

II. Translate the following sentences into Chinese.

1. Robert Zoellick, the World Bank president, said, "Leaders must not heed the siren song of protectionist fixes. Economic isolationism can lead to a negative spiral of events such as those we saw in the 1930s, which made a bad situation much, much worse." (Para. 4)



2. By contrast, those who can be identified as losing out because of trade—like automobile workers who have lost their jobs to imports—are relatively few and are easy to marshal into political communities with clear messages. (Para. 7)
3. Trade, just by virtue of its existence, makes international cooperation concrete. With all trade's potential to improve lives—so richly realized on those Asian riverbanks—it makes our world a safer and a better place. (Para. 12)

Text B

Pre-Reading Questions

- 1 What do you know about the Doha Round of global trade talks? What makes it a failure rather than a success?
- 2 What are the North-South and South-South conflicts? How could the involved countries solve these conflicts?
- 3 Many countries are worrying that exports from China will harm or even wipe out their industries. What can China do to help itself out?

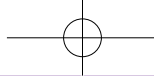
After Six Years, the Global Trade Talks Are Just That: Talk

Soon after September 11, 2001, the United States helped start a round of global trade talks aimed at getting rich countries to lower trade barriers so that poor countries could prosper by exporting goods, not terrorism. But it was never that simple.

There are disputes pitting Europe against the United States, rich countries against poor countries, and farming countries against industrial countries.

But a major new factor in the deadlock is a global economic realignment that has vaulted China, India, and Brazil into the top tier of the world's emerging markets, much to the concern of other developing countries like Mexico, Chile, and Thailand.

India and Brazil are refusing to lower their tariffs out of fear of export-driven economies like China. A second tier of developing countries that are trying to compete with India and Brazil are complaining that they are being shut out by India, Brazil, and other rapidly developing countries. Meanwhile, the poorest of the poor countries in Africa and elsewhere charge that the richer emerging market economies, which portray themselves as champions of the poor, are actually ignoring their needs.



“There is no value in blaming any single country over the state of our negotiations,” Peter Mandelson, the top European trade negotiator, said in an interview. “But this is not a classic North-South conflict. It is also South-South. The developed countries and the emerging economies have a responsibility to help the poorer countries.”

Failure of the global trade talks is widely seen as potentially damaging to the world economy, which is powered by more than \$10 trillion in trade of goods and services annually. The World Bank calculates that a new trade deal could add hundreds of billions of dollars to the world's income.

This week, the World Trade Organization in Geneva tried to resolve the trade impasse by proposing compromises by all sides. On Friday, Robert B. Zoellick, president of the World Bank, urged the parties to heed the call for a middle ground. “The global community should stay focused on the prize,” he said, adding that “all economies should be able to benefit” from a deal.

It was a pointed appeal, because Mr. Zoellick served as the United States trade envoy when the current talks were started in Doha, Qatar in 2001, as a “development round” to aid the poor.

The impasse has grown bitter, however.

Last month, Susan C. Schwab, the United States trade representative, charged that India and Brazil displayed “a lack of flexibility, indeed a rigidity” in refusing to lower farm and industrial tariffs in a way that could benefit not just the West but other poor countries.

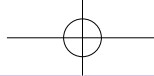
“There are some folks who may want to portray this as a North-South breakdown,” Ms. Schwab said. “I think nothing could be further from the truth.”

In an interview Friday, after returning from meetings with nearly 40 envoys of African countries in Ghana, Ms. Schwab said that while South Africa was backing the position of India and Brazil, the other African countries were in desperate need of a trade deal. The onus, she said, was on the richer developing countries to make it happen.

“The Doha Round is a development round, but that means something different than it would have meant 15 years ago,” she said. “It means that obviously the developed countries need to do the most. But the most rapidly growing developing countries need to do the next most because of the benefits they derived from an open trading system.”

But the Indian trade minister, Kamal Nath, has stood firm, suggesting that the United States and Europe were intransigent in keeping farm subsidies and other trade barriers high, hurting the world's poor. India charges that American farm subsidies especially keep American farm products artificially competitive against imports.

Though Mr. Nath maintained that trade talks were still mired in a conflict between rich and poor countries, recent developments suggest that a cleavage has indeed opened up among developing countries, with some emerging economies not wanting China, India, and Brazil to speak for them.



India and Brazil, for instance, call for phased-in reductions of tariffs on manufactured goods that would leave the highest tariffs at roughly 30 percent, though there were hints they could live with a level of 25 percent.

The United States and Europe which would reduce their own industrial tariffs to a few percentage points, say that India and Brazil have taken a hard line because of a fear of imports from China and other export-driven economies. India fears more specifically that its auto industry could be nearly wiped out by Chinese imports.

A new bloc of exporting countries are proposing a more conciliatory approach by suggesting a range for tariffs of the upper teens to the low twenties for the most protected products. This new “middle ground” bloc is led by Chile, Colombia, Costa Rica, China, Mexico, Peru, Singapore, and Thailand.

Brazil is considered pivotal in future negotiations because many analysts say it stands to gain the most from a trade deal as a superpower exporter of industrial goods and also a wide range of food products, from sugar to fruits and vegetables. Its position is considered likely to be more flexible than India's.

Celso Amorim, the Brazilian foreign minister and trade envoy, has been less willing to attack the West than Mr. Nath, but he denies that there is a rift between Brazil and India and other poor countries. “We are on the same wave length in terms of unity and mobilization,” he said in Geneva this month.

The United States, meanwhile, is still under pressure to do more on its own to reduce its farm subsidies. Current law allows the United States to subsidize farm products, if it so chooses, to nearly \$50 billion a year. But in the last three years, world food prices have been so high that American subsidies have not come close to that level.

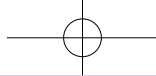
Last year, for example, the United States paid \$12 billion to subsidize farm products that compete with imports from other countries. That is the level at which India and Brazil want the United States to keep its so-called trade-distorting subsidies in the future.

The Bush administration argues that \$12 billion was unusually low, and that its offer of a ceiling of \$17 billion is below the levels of most of the last 10 years. Ms. Schwab has also hinted that the United States might reduce the level further if it sees flexibility from India and Brazil.

Outside the picture are the 60 or 70 poorest countries that stand to benefit the most from a trade deal, including countries in Africa and the poorest parts of Latin America and Asia. In a speech in Africa last week, Ms. Schwab said that 70 percent of the tariffs paid by poor countries go to other poor countries.

Ms. Schwab has also repeatedly called on China to show more leadership in promoting an international trade deal. But many trade experts say that China is deliberately laying low to avoid stoking fears of its products in the developing world.

“A lot of developing countries are seized with the idea that if they undertake tariff

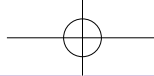


reductions, they're going to be overrun by Chinese goods," said William A. Reinsch, president of the National Foreign Trade Council in Washington, a pro-trade lobbying group. "It's going to be hard to disabuse them of that fear."

Comprehension

I. Choose the best answer to each of the following questions with the information you get from the text.

1. What is the culprit that results in the deadlock of the global trade talks?
 - A. China, India, and Brazil are realigned into the top tier of the world's emerging markets.
 - B. India and Brazil are refusing to lower their tariffs out of fear of export-driven economies like China.
 - C. India, Brazil, and other rapidly developing countries shut out a second tier of developing countries.
 - D. The richer emerging market economies, which portray themselves as champions of the poor, are actually ignoring the needs of the poorest of the poor countries in Africa and elsewhere.
2. Which of the following statements is true according to Susan C. Schwab?
 - A. India and Brazil should lower farm and industrial tariffs to benefit the West.
 - B. The fact that India and Brazil refuse to lower farm and industrial tariffs is a North-South breakdown.
 - C. Richer developing countries should be responsible for initiating a trade deal for those African countries which are in desperate need of it.
 - D. The most rapidly growing developing countries need to take the same responsibility with developed countries because of the benefits they derived from an open trading system.
3. What can we learn about American farm subsidies from the text?
 - A. The United States is allowed to subsidize farm products to over \$50 billion a year.
 - B. India and Brazil want the United States to keep its so-called trade-distorting subsidies at \$12 billion a year in the future.
 - C. The levels of American farm subsidies of most of the last 10 years are below \$17 billion.
 - D. The United States will reduce the level further if it sees flexibility from India and Brazil.
4. Which of the following is NOT true according to the text?
 - A. There is no disputes between European countries and the United States because they are all developed countries.
 - B. The Doha Round is a development round to aid the poor.
 - C. The United States and Europe would reduce their own industrial tariffs to a few



percentage points.

- D. A lot of developing countries think that if they undertake tariff reductions, they're going to be overrun by Chinese goods.
5. What does the author intend to do by writing this text?
- A. To condemn Brazil and India for their refusing to lower their tariffs.
- B. To urge all countries to work out feasible solutions to make the Doha Round a success.
- C. To condemn developed countries and the emerging economies for their not taking the responsibility to help the poorer countries.
- D. To give a brief description of disputes and arguments concerning the Doha Round.

II. Discuss with your partners and answer the following questions in your own words.

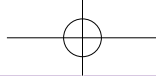
- How did the World Trade Organization in Geneva resolve the trade impasse?
- Why does South Africa go against Brazil and India according to the text?
- Why do some emerging economies not want China, India, and Brazil to speak for them?
- What should China do to promote the global trade and achieve mutual benefits with our trade partners?

Usage & Translation

I. Fill in the blanks with the words or phrases in the box. Change the form when necessary.

prosper	emerging market	trade-distorting
export-driven	reduction	conciliatory

- Domestic support measures for which exemption from the reduction commitments is claimed shall meet the fundamental requirement that they have no, or at most minimal, _____ effects or effects on production.
- Globalization means greater economic _____ for all and a true community of nations.
- The essential approach taken by the GATT was to assimilate those trade barriers to a common measure of tariffs and then to seek _____ in these quantitative impositions on trade in goods.
- Science, technology, and innovation are some of the key factors that will be crucial in helping to transform China's economy from the low-cost manufacturing, _____



economy of the past three decades into a higher value-added economy driven by domestic consumer demand.

5. Among this expanding and sizable social group, men, 60 to 75 years old, and women, 55 to 75, whose health condition would allow both short- and relatively long-term travel, are potential targets of travel agencies who eye this _____.
6. Reuters said that President Xi's remarks indicate China is adopting a more _____ foreign policy after attempting to ease relations with Vietnam, the Philippines, and the US.

II. Translate the following sentences into Chinese.

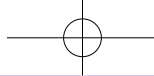
1. But a major new factor in the deadlock is a global economic realignment that has vaulted China, India, and Brazil into the top tier of the world's emerging markets, much to the concern of other developing countries like Mexico, Chile, and Thailand. (Para. 3)
2. A new bloc of exporting countries are proposing a more conciliatory approach by suggesting a range for tariffs of the upper teens to the low twenties for the most protected products. (Para. 18)
3. Ms. Schwab has also repeatedly called on China to show more leadership in promoting an international trade deal. But many trade experts say that China is deliberately laying low to avoid stoking fears of its products in the developing world. (Para. 25)

Supplementary Reading ■■■■■

No End of Free Trade

Early in 2008, Democratic congressional leaders put a hold on trade deals the Bush administration had negotiated with Colombia, Panama, and South Korea. In the presidential campaign that played out the rest of the year, leading Democratic candidates and the party's ultimate winner, President-elect Barack Obama, pledged to renegotiate the **North American Free Trade Agreement (NAFTA)**¹ as part of an overall bid to restore "fair trade" principles to such deals, including greater labor and environmental protections. In the electoral season's final months, the country plunged into a financial crisis, by some indications further deepening the misgivings Americans were expressing about globalization and free trade. The mood has

1 North American Free Trade Agreement (NAFTA) is an agreement signed by Canada, Mexico, and the United States, creating a free-trade bloc among the three largest countries of North America. The agreement came into force on January 1, 1994.



aroused concerns among some economists about a shift toward protectionism at a time when most economists say open markets are vital for economic revival. Some analysts, however, see an opportunity for trade advances in the new administration. They note the Democratic Party's support for the Doha multilateral trade round and say the new team of political leaders might be better positioned to reform trade policy and promote free trade.

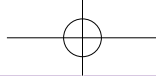
There is a long history of US bipartisan cooperation on trade liberalization. US policymakers forged a bipartisan consensus on expanding global trade at the end of World War II, building on the momentum of the [Bretton Woods Conference](#)² to form the General Agreement on Tariffs and Trade (GATT) in 1947. With the onset of the Cold War soon after the creation of the GATT, trade expansion's geostrategic dimension grew in importance. President John F. Kennedy linked the advancement of freedom and trade, inspiring the Kennedy Round of world trade talks, which led to significant tariff cuts and trade expansion. Two decades later, Republican President Ronald Reagan similarly connected trade to the "tides of human progress" and launched the [Uruguay Round](#)³ in 1986, which a later Democratic president, Bill Clinton, helped complete in 1994. The Uruguay Round established the World Trade Organization.

Trade liberalization has been embraced by many economists and policymakers through the years because it is seen as generating greater productivity and wealth through shifting labor and capital from less to more productive economic activities. It also greatly expands the amount of goods and services available to consumers. An expert says postwar globalization has made the US economy \$1 trillion richer each year. But there has been growing resentment in some quarters about a failure to adequately address free trade's losers—those working in US sectors, particularly in manufacturing, that have lost out to cheaper, more efficient producers.

This resentment has been directed in part at the expanding number of free trade agreements (FTAs), both regional and bilateral, negotiated by the Bush administration. Some say they aided special interests at the expense of other US job sectors, while others object to them in principle as distracting from the more broadly beneficial Doha trade round still under negotiation. Clinton helped shepherd NAFTA to completion and President George W. Bush has completed 11 FTAs—but the stalled action on the Colombia, Panama, and South Korea deals reflects concern among some Americans that globalization has eroded jobs and wages in the United States. Democrats, in particular, seized on this unease in the run-up to the 2008 elections. A backlash against NAFTA and other free-trade agreements featured prominently in the Democratic primary contest, especially in manufacturing states like Ohio and Pennsylvania, which have shed hundreds of thousands of jobs.

2 The Bretton Woods Conference, formally known as the United Nations Monetary and Financial Conference, was attended by experts noncommittally representing 44 states or governments, including the Soviet Union.

3 The Uruguay Round was the 8th round of multilateral trade negotiations conducted within the framework of the General Agreement on Tariffs and Trade (GATT), spanning from 1986 to 1994 and embracing 123 countries as "contracting parties." The Round led to the creation of the World Trade Organization, with GATT remaining as an integral part of the WTO agreements.



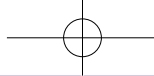
In the 2008 elections, dozens of Democrats and a handful of Republicans critical of the Bush administration's free trade policy were elected to Congress. Public Citizen's Global Trade Watch, a Washington-based organization that tracks such issues and opposes the Bush administration's trade policy, says 33 new "fair trade" advocates were elected to Congress in 2008. It identifies such politicians as "committed to changing the North American Free Trade Agreement/World Trade Organization model." One of the newly elected Democratic congressmen, Larry Kissell of North Carolina, was quoted by Reuters as saying there should be a moratorium on trade deals until "we see good jobs coming back."

Some experts say the pending agreement with Colombia will mark an important litmus test for Obama. Business groups have called for passage of the deal. Most have noted that the United States is already open to Colombian goods. The deal would provide an important market for US manufacturers currently facing high tariffs in Colombia, at a time when competitors are poised to make their own deals with the country. Labor groups, which heavily supported Obama and other Democratic candidates, oppose the deal on the grounds that violence against labor organizers remains at an unacceptably high level.

Free trade agreements also face criticism from economists who say they amount to preferential deals and undermine free-trade concepts while distracting from the more meaningful Doha Round of global trade talks. But some advocates point to strong results from free trade agreements.

Given anxiety over the economy and rhetoric from lawmakers in Washington, some trade proponents are concerned that Congress will propose legislation akin to the Smoot-Hawley Tariff Act of 1930, which increased protectionism and contributed to the Great Depression. A week after Election Day, the US Commerce undersecretary of international trade, Christopher Padillo, said President-elect Obama will face "more political pressure for protectionism than any other chief executive since 1930." Mindful of such concerns, the November 15 summit of the G20 major economic powers made an appeal for advancing the Doha Round and underscored "the critical importance of rejecting protectionism and not turning inward in times of financial uncertainty." This appeal was echoed one week later at the summit of the Asia-Pacific Economic Cooperation forum in Peru. James Bacchus, a former Democratic member of Congress and former chief judge of the World Trade Organization's Appellate Body, says trade liberalization offers a particularly effective economic stimulus, in addition to the spending and tax cut options before Obama at this time. "The rest of the world is waiting for Barack Obama on this issue," Bacchus says. "We're talking about tax cuts in the United States. Trade tariffs are a tax and reducing these would be immediate tax cuts for Americans and others around the world. These tax cuts would increase the volume of trade and prosperity worldwide."

Though economists tout the benefits of trade liberalization, worried policymakers around the globe have enacted stimulus plans and sought to protect fragile industries during the crisis.



CFR⁴ Adjunct Senior Fellow Matthew J. Slaughter warns that one plan under consideration, a US federal bailout of the Big Three US automakers, could have a disastrous effect on trade.

But *The Wall Street Journal's* Gerald F. Seib says the crisis provides opportunities for Obama as well; at a time when Americans are expecting government activism on everything from health care to big infrastructure programs, a revival of trade deals could be sought as well.

Hufbauer of the Peterson Institute says the financial crisis is “taking heat away from the trade” issue during the transition, but he doesn’t anticipate any type of trade initiatives emerging from an Obama administration in its early months. “The first thing is to get out of the recession, then do something about a safety net, health insurance, Trade Adjustment Assistance for workers impacted by trade,” he said. Bhagwati, speaking at New York Law School in November 2008, said: “This is not a time when we can really sell trade liberalization, in my view. A lot of people are not going to make these distinctions” between problems like lost jobs, outsourcing, and trade.

Obama will confront an American public increasingly skeptical of the benefits of globalization. Numerous polls conducted during the presidential campaign in 2008 showed that a growing number of citizens looked at free trade as a threat.

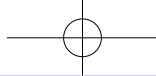
CFR’s Slaughter and Yale University’s Kenneth F. Scheve wrote in a 2007 *Foreign Affairs* article that earnings for most US workers have been falling in recent years, with inequality greater than at any time in the past 70 years. Economists are divided over how much this inequality is due to globalization, but Slaughter and Scheve add: “Public support for engagement with the world economy is strongly linked to labor-market performance, and for most workers labor-market performance has been poor.”

Democratic presidential contenders, many with free-trade records or support from trade advocates, campaigned on the dangers of free-trade deals and lack of “trickle down” wealth from these deals to the middle and working classes. Obama economic adviser Austan Goolsbee told CFR.org in a September 2008 interview that Obama supports free trade. However, he said that flawed agreements filled with loopholes and clauses for special interests have impeded broader benefits.

At the same time, Democrats also come under criticism for protecting special interests. The five-year, nearly \$290 billion Farm Bill that passed over President Bush’s objections earlier in 2008 retained a number of subsidies seen as distorting trade, and gave scant attention to calls by trading partners for reform. The Doha Round, for instance, remains stalled over agriculture questions, including the support levels given by the United States and European Union to their farmers.

Many economists believe a central plank in advancing trade policy is improving the way Washington deals with those buffeted by trade, something both Obama and McCain agreed

4 The Council on Foreign Relations (CFR) is an independent, nonpartisan membership organization, think tank, and publisher. Each of these functions makes CFR an indispensable resource in a complex world.



on during the campaign. This will involve strengthening social safety nets such as access to health care and pensions, and improving education opportunities. Most important will be providing compensation for those sectors that are clearly losers in the short term due to trade liberalization. One approach, advanced by University of Chicago Professor Robert LaLonde, calls for revamping current trade assistance programs by shifting resources to a displacement insurance plan, which would provide an earnings supplement for workers facing a long-term drop in wages. CFR's Slaughter and Yale University's Scheve propose boosting the pay of lower-income wage earners through efforts like eliminating the payroll tax for those earning below the national median income.

Group Discussion

1. What is the goodness of trade liberalization?
2. What criticism do free trade agreements face?
3. What do you think of the financial crisis?

Test Yourself

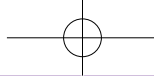
Passage 1

Questions 1 to 5 are based on the following passage.

What could be more outrageous than the hefty subsidies the US government lavishes on rich American cotton farmers?

How about the hefty subsidies the US government is about to start lavishing on rich Brazilian cotton farmers?

If that sounds implausible or insane, well, welcome to US agricultural policy, where the implausible and the insane are the routine. Our perplexing \$147.3 million-a-year handout to Brazilian agribusiness, part of a last-minute deal to head off an arcane trade dispute, barely even qualified as news; on Tuesday, April 6, it was buried in the 11th paragraph of this Reuters story. If you're perplexed, here's the short explanation: We're shoveling our taxpayer dollars to Brazilian farmers to make sure we can keep shoveling our taxpayer dollars to American farmers—which is, after all, the overriding purpose of US agricultural policy. Basically, we're



paying off foreigners to let us maintain our ludicrous status quo.

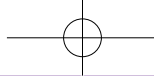
I've previously written that federal farm subsidies are bad fiscal, environmental, and agricultural policy; bad water, energy, and health policy; and bad foreign policy, to boot. Cotton subsidies are a particularly egregious form of corporate welfare, funneling about \$3 billion a year to fewer than 20,000 planters who tend to use inordinate amounts of water, energy, and pesticides. But the World Trade Organization (WTO) doesn't prohibit dumb subsidies. It only prohibits subsidies that distort trade and hurt farmers in other countries.

And yes, US cotton subsidies do that, too. By encouraging Americans to plant cotton even when prices are low, they promote overproduction and further depress prices. A study found that removing them entirely would boost world prices about 10%, which would be especially helpful to the 20,000 subsistence cotton growers in Africa. In 2005, the WTO upheld a challenge that Brazil had filed against the cotton subsidies as well as some export-credit guarantees for all American farm products, but the US essentially ignored the ruling.

So last August, the WTO gave Brazil the right to impose punitive tariffs and lift patent protections on \$829 million worth of US goods—including nonfarm products like cars, drugs, textiles, chemicals, electronics, movies, and music. The retaliation was supposed to start, and it would have driven home how our relentless coddling of farmers hurts other American exporters, paralyzing our efforts to open overseas markets to the nonfarm goods and services that make up 99% of our economy. But at the 11th hour, negotiators from the Office of the US Trade Representative and the Department of Agriculture reached a temporary deal with their Brazilian counterparts, so the retaliation is on hold.

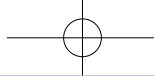
The obvious solution would have been for the US to get rid of its improper subsidies. But the current farm bill does not expire until 2012, and the congressional agriculture committees don't want to mess with it because, well, they just don't. Senate Agriculture Chairman Blanche Lincoln of Arkansas and ranking Republican Saxby Chambliss of Georgia on Wednesday praised both governments for finding an alternative solution and pledged to "explore modifications" in 2012. Maybe they will, but don't bet on it—cotton, after all, is not unheard of in Arkansas and Georgia.

The US negotiators did agree to modify the complicated export-guarantee program to make it less of an export-subsidy program. They also agreed to ease restrictions on Brazilian beef that have been justified as an effort to protect Americans from foot-and-mouth disease—and criticized as an effort to protect US cattlemen from competition. But the big-ticket item is the settlement's "technical assistance" fund of \$147.3 million, prorated, for Brazilian cotton growers. That just happens to be the precise amount of the retaliation the WTO had approved for the improper cotton subsidies. According to the US press release, the fund will be replenished every year "until passage of the next farm bill or a mutually agreed solution to the cotton dispute is reached." So the total cost will exceed the price tag of the infamous Alaskan bridge to nowhere, which was at least designed for



Alaskans; the annual cost will far exceed the \$100 million President Obama ordered his Cabinet to cut from the federal budget last year.

1. What can we learn from Paragraph 3?
 - A. The hefty subsidies the US government is about to start lavishing on rich Brazilian cotton farmers are unusually insane and implausible in US agricultural policy.
 - B. The \$147.3 million-a-year handout to Brazilian agribusiness is a desirable way to settle the arcane trade dispute.
 - C. Reuters is the first to report the \$147.3 million-a-year handout to Brazilian agribusiness.
 - D. The US is paying off foreigners to maintain ludicrous status quo.
2. Which of the following is NOT true about US cotton subsidies?
 - A. They render \$3 billion a year to fewer than 20,000 planters who tend to use inordinate amounts of water, energy, and pesticides.
 - B. They distort trade and hurt farmers in other countries.
 - C. They promote overproduction and further depress prices.
 - D. World cotton prices would be boosted over 10% if they are all removed.
3. Which of the following is NOT true about Brazil's retaliation?
 - A. Brazil has the right to impose punitive tariffs on nonfarm products.
 - B. It is designed to attack US farm products.
 - C. It would have ruined US efforts to open overseas markets to the nonfarm goods and services that make up 99% of its economy.
 - D. It is on hold because negotiators from the Office of the US Trade Representative and the Department of Agriculture reached a temporary deal with their Brazilian counterparts.
4. What is seen as the most important result in the settlement of the US cotton subsidies dispute?
 - A. The US government agreed to remove improper subsidies.
 - B. The US negotiators agreed to modify the complicated export-guarantee program to make it less of an export-subsidy program.
 - C. It is the settlement's "technical assistance" fund of \$147.3 million, prorated, for Brazilian cotton growers.
 - D. The US negotiators agreed to ease restrictions on Brazilian beef that have been justified as an effort to protect Americans from foot-and-mouth disease—and criticized as an effort to protect US cattlemen from competition.
5. What's the author's attitude toward US farm policy?
 - A. Negative.
 - B. Positive.
 - C. Neutral.
 - D. Unconcerned.



Passage 2

Questions 6 to 10 are based on the following passage.

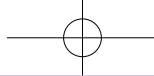
The World Trade Organization (WTO) is an organization that intends to supervise and liberalize international trade. The organization officially commenced on January 1, 1995 under the Marrakesh Agreement, replacing the General Agreement on Tariffs and Trade (GATT), which commenced in 1948. The organization deals with regulation of trade between participating countries and regions/members; it provides a framework for negotiating and formalizing trade agreements, and a dispute resolution process aimed at enforcing participants' adherence to WTO agreements which are signed by representatives of member governments and ratified by their parliaments. Most of the issues that the WTO focuses on derive from previous trade negotiations, especially from the Uruguay Round (1986–1994).

The organization is currently endeavoring to persist with a trade negotiation called the Doha Development Agenda (or Doha Round), which was launched in 2001 to enhance equitable participation of poorer countries which represent a majority of the world's population. However, the negotiation has been dogged by “disagreement between exporters of agricultural bulk commodities and countries with large numbers of subsistence farmers on the precise terms of a ‘special safeguard measure’ to protect farmers from surges in imports. At this time, the future of the Doha Round is uncertain.”

Subject to formal ratification of the three most recent members, the WTO has 157 members, representing more than 97% of the world's population, and 26 observers, most seeking membership. The WTO is governed by a ministerial conference, meeting every two years; a general council, which implements the conference's policy decisions and is responsible for day-to-day administration; and a director-general, who is appointed by the ministerial conference. The WTO's headquarters is in Geneva, Switzerland.

The WTO's predecessor, GATT, was established after World War II in the wake of other new multilateral institutions dedicated to international economic cooperation—notably the Bretton Woods institutions known as the World Bank and the International Monetary Fund. A comparable international institution for trade, named the International Trade Organization (ITO) was successfully negotiated. The ITO was to be a United Nations specialized agency and would address not only trade barriers but other issues indirectly related to trade, including employment, investment, restrictive business practices, and commodity agreements. But the ITO treaty was not approved by the US and a few other signatories and never went into effect.

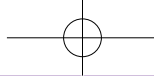
The topmost decision-making body of the WTO is the Ministerial Conference, which usually meets every two years. It brings together all members of the WTO, all of which are countries or customs unions. The Ministerial Conference can take decisions on all matters under any of the multilateral trade agreements. The inaugural ministerial conference was held in Singapore in 1996. Disagreements between largely developed and developing economies



emerged during this conference over four issues initiated by this conference, which led to them being collectively referred to as the “Singapore issues.” The second ministerial conference was held in Geneva in Switzerland. The third conference in Seattle, Washington ended in failure, with massive demonstrations and police and National Guard crowd control efforts drawing worldwide attention. The fourth ministerial conference was held in Doha, in the Persian Gulf nation of Qatar. The Doha Development Agenda was launched at the conference. The conference also approved the joining of China, which became the 143rd member to join. The fifth ministerial conference was held in Cancún, Mexico, aiming at forging agreement on the Doha Round. An alliance of 22 Southern states, the G20 developing nations (led by India, China, Brazil, ASEAN led by the Philippines), resisted demands from the North for agreements on the so-called “Singapore issues” and called for an end to agricultural subsidies within the EU and the US. The talks broke down without progress.

The sixth WTO ministerial conference was held in Hong Kong in December 2005. It was considered vital if the four-year-old Doha Development Agenda negotiations were to move forward sufficiently to conclude the round in 2006. In this meeting, countries agreed to phase out all their agricultural export subsidies by the end of 2013, and terminate any cotton export subsidies by the end of 2006. Further concessions to developing countries included an agreement to introduce duty-free, tariff-free access for goods from the least developed countries, following the Everything but Arms initiative of the European Union—but with up to 3% of tariff lines exempted. Other major issues were left for further negotiation to be completed by the end of 2010. The WTO General Council, on May 26, 2009, agreed to hold a seventh WTO ministerial conference session in Geneva from November 30 to December 3, 2009. A statement by chairman Amb. Mario Matus acknowledged that the prime purpose was to remedy a breach of protocol requiring two-yearly “regular” meetings, which had lapsed with the Doha Round failure in 2005, and that the “scaled-down” meeting would not be a negotiating session, but “emphasis will be on transparency and open discussion rather than on small group processes and informal negotiating structures.” The general theme for discussion was “The WTO, the Multilateral Trading System, and the Current Global Economic Environment.”

6. Which of the following is NOT true according to the first paragraph?
- A. The WTO, officially commenced on January 1, 1995 under the Marrakesh Agreement, is set to supervise and liberalize international trade.
 - B. The WTO deals with regulation of trade between all countries.
 - C. The WTO provides a framework for negotiating and formalizing trade agreements, and a dispute resolution process aimed at enforcing participants’ adherence to WTO agreements.
 - D. Most of the issues that the WTO focuses on derive from previous trade negotiations, especially from the Uruguay Round.



7. What can we learn about the Doha Round?
 - A. It was launched in 2001 to increase participation of the poorer countries.
 - B. It was hampered by conflicts between the richer countries and the poorer ones.
 - C. It focuses on the trade of farm products.
 - D. It is doomed to fail in the future.

8. Which of the following statements about the Ministerial Conference is true according to the passage?
 - A. It is the topmost decision-making body of the WTO, which meets annually.
 - B. It only makes decisions on some important matters under the multilateral trade agreements.
 - C. It approved the joining of China at the fourth conference.
 - D. It helped solve the so-called “Singapore issues” at the fifth conference.

9. Which Ministerial Conference helps reach the agreement of phasing out agricultural export subsidies by the end of 2013?
 - A. The second one.
 - B. The third one.
 - C. The fifth one.
 - D. The sixth one.

10. Which of the following is NOT true according to the passage?
 - A. The WTO provides a dispute resolution process.
 - B. The WTO has 157 members, representing nearly 97% of the world’s population.
 - C. “Singapore issues” refer to disagreements between largely developed and developing economies.
 - D. The prime purpose of the seventh ministerial conference is to remedy a breach of protocol.