

Open Markets for Trade and Investment

Wednesday afternoon, 4 June 2008

Moderator: **Jagdish Bhagwati**, Professor of Economics, Columbia University, United States

Sharan Burrow, President, Australian Council of Trade Unions

Glen Hodgson, Senior Vice-President, The Conference Board of Canada

Luc Lamprière, Executive Director, Oxfam France, France

Clyde V. Prestowitz, President, Economic Strategy Institute, United States

Trade and investment have always been the key factors in sustaining growth and stability and one of the hottest issues in the OECD forum. In this afternoon's session, the speakers addressed the issues of whether open markets are now under threat, if and how regulations should respond to the emergence of sovereign wealth funds (SWFs), and how to better communicate the benefits of free trade and investment.

Jagdish Bhagwati, who has been a long-time advocate of "free trade", does not foresee a "serious outbreak" of protectionism, mainly because there are far more constraints on governments to raise tariff barriers as they did, say, in the 1930s, when protectionism last prevailed. Indeed, Mr Bhagwati sees more cause for concern in the use of labour and environmental standards as "covert protectionism". Imposing Western standards on developing countries will reduce their competitiveness: "It is not a flat world, but some people [in the West] want to flatten it". As for the regulation of SWFs, Mr Bhagwati questions the utility of special regulations: "Do we need a code? I doubt it". For Mr Bhagwati, these funds can easily get around such regulations by, for example, outsourcing their investments to professional managers in the West. Finally, Mr Bhagwati lamented the media's exaggerated focus on job losses associated with free trade and investment while ignoring the jobs that are created. "We need to develop a menu with pictures of factories opening", although he conceded that there is no simple way to communicate the advantages of free trade.

Sharan Burrow said that we should learn from the failure of the "Washington consensus" (shorthand for free market orthodoxy), reorientate our idea of globalisation, and move away from the "business as usual" approach. As a labour representative, Ms Burrow insisted that she wanted "robust domestic and global markets" but with "rights-based labour mobility". She called it "decent capitalism". For Ms Burrow, open markets are under threat because of the negative distributional effects of globalisation and the resultant creation of two-speed economies: globalisation will only succeed if political leaders acknowledge that it creates winners and losers, and seek ways to compensate the losers. Ms Burrow thus calls for the debate to begin on effective regulation and the building of common core values—"we are all interrelated in global supply chains". "The current financial crisis was no accident", she said, and "it was not impossible to predict", thus criticising the idea that financial markets are capable of self-regulation – "freedom to invest must not outweigh effective regulation".

Glen Hodgson believes that we need to rethink every thing about globalisation and adopt a modern view of trade, what he calls “integrative trade”. Since “firms are able to use investment to reposition their business around the world”, a new international business model has appeared, where all the elements— imports, exports, investment, services—are required for firm efficiency and wealth creation.

Indeed, a global supply chain has emerged. Mr Hodgson took the example of Apple’s I-Pod, which is labelled *Made in China*, even though half of the components are made in the US, and just 1% of the I-Pod is actually made in China! The rest is produced in Europe and elsewhere in Asia, making it a “global product”.

Despite this, and concurring with Mr Bhagwati, Mr Hodgson warned of the emergence of what he calls “a new protectionism”, as tariffs, domestic subsidies, quotas, and anti-dumping laws are being supplanted by the likes of labour and environmental standards. Hodgson also spoke of the emergence of “foreign investment mercantilism”, with countries promoting outward expansion, but obstructing foreign acquisitions at home. All of this leads to a growing risk of trade and investment policy fragmentation, even as global economic integration continues, and requires a “global debate on standards”.

Luc Lamprière highlighted some of negative consequences of free trade, such as the recent surge in food prices and its impact on the daily lives of poor people. He believes that developing countries should walk away from Doha round of trade talks if a satisfactory agreement is not reached or if developed countries try to impose artificial deadlines: “they should not be rushed into a bad deal” he said. What is needed, in Mr Lamprière’s opinion, is “a deep reform of the world trading system”. At the moment, the Doha trade round is generating much talk but little substance—a type of “Development Light” - with few signs of the political required to tackle distortionary subsidies. Fairer markets must be developed instead of just freer markets and, Mr Lamprière insisted, the goal of “making poverty history” is still a realistic one and must not be abandoned.

Clyde V. Prestowitz described the extraordinary rise in the US trade deficit over the past two decades, from \$27billion in 1981, when he became assistant to the Treasury Secretary in the US government, to over \$800bn a year in recent times. Looking at these figures, Mr Prestowitz sees little cause for concern about the threat to open markets: “it is hard for me to get terribly worried...a country that has deficit of \$850bn is importing an awful lot of goods, and cannot be very protectionist”. Nonetheless, he argued that “our framework of conceptualisation is outdated” as we are still drawing analogies with the Great Depression, which was over 70 years ago. The problem now is that have been working on the premise that “we are all playing the same game”, which is not in fact the case: “half the world is playing football, the other half is playing tennis”. On the one hand, half is playing “neoclassical, liberal, free trade economics”, with domestic consumption driving economic growth, low savings rates, floating currencies and idiosyncratic cases of protectionism (as opposed to systematic protectionism). On the other hand, there are

those countries that pursue export-led-growth, and for that “you need strategic protectionism”. These countries have high savings, managed currencies, persistent current account surpluses and “a vast array of industrial policies and regulations”, he said. This has resulted in unstable imbalances: “the world may be flat, but it is tilted”, Mr Prestowitz remarked.

In questions from the floor, Mr Bhagwati took up the issue of fair trade raised by Luc Lamprière. He claimed that the concept of fair trade benefits the rich countries more than the poor, and reminded us that 200 million Indians had been raised out of poverty since the country embraced free trade and investment.

A woman from the floor, a trade advisor at the European Parliament, asked Glen Hodgson why environmental and labour norms were presented as new protectionism. She recalled there had been a 1999 trade agreement in textiles between US and Cambodia which included labour clauses. So shouldn't there be some labour clauses in multilateral agreements too?

Mr Hodgson wasn't against such clauses, but what mattered was the way they were done and in which details the devil resides—they are disguised as environmental and labour clauses, but are actually protectionist clauses, he maintained.

BMG/HEC-PG, XF, EV