GLOBAL TRADE AND ITS DISCONTENTS

With protectionist sentiment on the rise and World Trade Organization disputes growing, advocates of free trade must defend the benefits of an open global trading system.

MATTHEW STUART FOR *FTI JOURNAL*

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Around the world, open, market-based economic systems have boosted incomes, lifted many millions out of poverty, and improved life expectancies and educational attainment. But following the economic and financial crises of 2008, many are clamoring for protectionism. This will be costly not only for consumers but also for domestic producers. Their materials and parts will become more expensive even as they become less efficient, which in turn could further depress the global economy.

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Free trade significantly improves the lives of almost everyone on the planet and particularly those in developing countries. It is vital that an open and rules-based global trading system continue to be a tool for sustainable growth and poverty reduction.

Failure to defend free trade had dire consequences in the early 20th century and again in the 1930s, following two earlier great ages of international trade. By failing to speak up sufficiently for the social, political and economic value of an open global trading system, our predecessors were rewarded with two world wars.

This may be the year the free trade edifice gives way. The omens are there. The so-called Doha Development Round, which was intended to move the world toward dismantling subsidies and tariffs in areas such as agriculture, remains stalled at best. Many feel it is broken beyond repair. The most recent biennial ministerial conference admitted Russia but made no progress on Doha, which only reinforced the dark political mood clouding trade talks. And the growing risk of the consumer-rich parts of the world lapsing into a double-dip recession presages likely political pressures to stem the flow of cheap imports that are thought to cost local jobs.

With key parts of the global economy bumping along as they are, increased protectionism might seem so obvious an outcome that it barely merits a column. Yet as I write this, there has been a strange silence on trade. This is partly because last year the United States was able to make progress on bilateral trade agreements with Colombia, Panama and South Korea, which had been given up for dead in the gridlocked atmosphere of Washington politics. This gave perennial trade optimists fresh hope. More strikingly, a short and sharp trade contraction occurred with the first economic downturn in 2008 as trade credit dried up, but then trade and the global economy seemed to bounce back.

Hence the complacency about trade: It has survived worse. We may not be about to see breakthroughs such as a new global trade agreement, but good sense will prevail, goes the comforting argument. We will also not see trading partners poking themselves in the eye by throwing up trade barriers that will further slow global growth. We are all in this together and will either sink or swim. And anyway, there are bigger things to worry about: the euro, U.S. elections and the coming leadership transition in China.

The trouble with that orthodox complacency is that a lot of what is happening in politics and finance at the moment traces back to a dysfunctional global trading system. Further, the economics establishment is no longer so unqualified in its assertion that free trade lifts all ships.

This takes away the prop that free trade is intellectually unassailable and it's just venal politicians who choose to think otherwise for their own self-interested purposes. Now most are seeing vast concentrations of wealth at one end of the global scale and an emerging markets working class

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at the other, selling its labor more cheaply than in the old industrial economies. These factors are creating a structural jobs deficit in the north as well as new and politically unsettling patterns of extreme economic inequality. All this is driven by the globalization of markets, or free trade by another name.

The perceived injustice of these new disparities, within nations and between nations, is driving a lot of anger on both ends of the U.S. political spectrum, from Occupy Wall Street to the Tea Party protests. Alan Krueger, Chairman of the White House Council of Economic Advisers, noted recently that the percentage of income going to the top 1% is bigger than the total income of the bottom 40% of earners. This is marking a sharp rise in income inequality and having significant effects on the country's middle class, Krueger said.

Less noticed is its impact on the

euro and European politics. The euro crisis is in part a trade crisis. Large parts of the European economy have become structurally uncompetitive because countries like Greece and Spain have been locked into

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overvalued exchange rates that reflect German, not Mediterranean, economic competitiveness. The same process of a growth of internal inequality is under way. As in other parts of the world, this inequality was hard to see because of cheap consumer, mortgage and sovereign debt, which has now become unsustainable and has turbocharged the markets' assault on the euro.

So, 2012 could well be the year the edifice comes tumbling down, political bricks and mortar and the intellectual foundations giving way at the same time. If so, it will be a disaster for the world. Free trade may presently be provoking a nationalist and populist backlash in many quarters, and its contribution to jobs and growth may be more complicated than previously blithely asserted. Still, it remains a critical underwriter of a liberal global society. We let it go at our peril. Those of us in any walk of international life, be it business, the public or not-for-profit sectors, need to get up and say so before it is too late. ■

ILLUSTRATION BY OLIVER MUNDAY

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