

Lecture:

Just as idealists believe that international organization and law will promote peace, there are those who firmly believe that the way to world peace is through the promotion of free trade. As Richard Cobden said: "Free Trade! What is it? Why, breaking down the barriers that separate nations; those barriers, behind which nestle the feelings of pride, revenge, hatred and jealousy, which every now and then burst their bounds, and deluge whole countries with blood." (as quoted in Hans J. Morgenthau, revised by Kenneth W. Thompson, *Politics Among Nations* (Boston: McGraw Hill), p.35, footnote 7.

Free trade means the elimination of protectionist policies such as tariff barriers, which states levy against the importation of goods and services from other states. There is a strong belief that protectionism in the 1930s, such as the Hawley-Smoot tariff Act in the United States, was one of the major factors that led to the outbreak of the Second World War. Hegemonic stability theory, discussed earlier, is based on the notion that international security rests on the extent to which a hegemonic power, (the United Kingdom in the 19th century, the United States today) can maintain an open and free trading system. The hegemon functions as a peacekeeper because it derives economic benefits from doing so.

Globalization

Globalization can mean many different things, one of which is the growing expansion of international trade. According to one study, global trade has increased 14 times between 1950 and 1997. The policy of the Clinton administration was based on geoeconomics in a globalizing world, that is the promotion of open markets and free trade. In the decade of the 1990s, the U.S. engaged in an unprecedented period of economic growth and prosperity, belying the prediction of historians who argued that the U.S. was a declining hegemonic power from an economic point of view. However, the United States did accumulate a huge trade deficit, which was estimated at \$500 billion in 2001.

President Clinton was able to negotiate an impressive number of trade agreements during his administration, until Congress (as relations between the Democratic President and the conservative Republican Congress became increasingly frayed) voted to deny the President "fast-track" negotiating authority. A fast-track trade agreement submitted to Congress by the President must be voted up or down without the consideration of any amendments. President Bush regained the authority to negotiate fast track trade agreements in 2002.

Clinton tried to negotiate closer economic ties with 21 Pacific Rim states, through the creation of the Asia Pacific Economic Forum APEC. (For recent updates in 2004, check out the APEC website, and also their links to other useful websites) However, APEC has not yet evolved into a very effective organization, and there is the possibility that a group of Asian states may form their own regional free trade organization without the participation of the United States.

The North American Free Trade Agreement

January 1, 1994, saw the implementation of a rather controversial free trade agreement involving the United States, Canada, and Mexico. The NAFTA (North American Free Trade



Agreement) which was based upon a previous U.S.-Canadian trade agreement, was controversial because it was supported by the Fortune 500 companies which were accused of wanting to take advantage of the cheap labor and weak environmental standards that existed in Mexico. Organized labor opposed NAFTA because it believed that it would bring about the relocation of factories in Mexico, which would result in the loss of jobs in the U.S. Nonetheless, by 2001, the two-way trade between Canada, the U.S. and Mexico, was greater than the combined total of U.S. trade with the European Union and Japan. Canada is the number 1 trading partner of the U.S., while Mexico has now moved into second place. The United States would now like to extend this arrangement to include the rest of Latin America, a policy which has triggered protests from Cuba of American "hegemonism".

Free Trade Area of the Americas

The Bush administration has continued Clinton's policy of promoting regional trade integration. In April 2001, a summit meeting of the Americas took place in Quebec City, to move forward with a Free Trade Area of the Americas (FTAA), a process that had been started in 1994. The United States believes that this will help to promote economic growth and create jobs in the United States. The Americans argue that it will also contribute to democracy, good governance, and the rule of law in Latin America.

However, on the down side of this process, **although** regional trade organizations are designed to promote multilateral trade agreements, it is possible that the world economy could be divided into three rival economic blocs: Asia, North and South America, and the European Union. If the U.S. continues to experience an economic downturn in the 21st century, there could be an increase in economic disputes with the European Union and Asia.

The World Trade Organization

Therefore, to prevent trade wars from happening, it is necessary to have an effective World Trade Organization ([World Trade Organization](#)) which can develop a set of trading rules based on consensus. It is also necessary to have an international trade organization which will resolve trade disputes between states. There was a need for a dispute resolution mechanism that could resolve such issues as agricultural subsidies, and non-tariff barriers such as quotas, which can be used to discriminate unfairly against the importation of goods. To fulfill these and other functions the World Trade Organization, was created in 1995, to provide a forum for multilateral trade negotiations and to facilitate the free and harmonious flow of international trade.

The WTO, which consists of 140 members (of which about 3/4 are developing countries) has created a dispute resolution mechanism. The WTO has considered about 200 disputes in the first six years since it has been created. The disputes have involved steel dumping (by South Korea in the United States), the imposition of a tariff by the Bush administration on steel imports in 2002, the cutting off of Latin American bananas to markets in the European Union, and the refusal by the European Union to import American beef that had been treated with growth hormones, among others. Unless such disputes are resolved, they can lead to retaliatory action and trade wars. States which are dissatisfied with WTO decisions in such disputes, have the right to appeal.

The WTO was created in 1995 as the successor to the GATT (the General Agreement on Tariffs and Trade). The GATT functioned from 1947 to 1997. The GATT operated through a series of "rounds" of negotiations that took years. The negotiations dealt with issues ranging from textiles



to agriculture. The last in the series of negotiations was known as the Uruguay Round. One of the functions of the WTO is to implement the trade agreements that were reached in the Uruguay Round.

WTO Issues

Some of the critical issues which the WTO is dealing with, revolve around the subsidization of the agricultural sector in the European Union (a policy which is strongly supported by France), monopolies controlled by state enterprises (some transition economies still have not privatized leading sectors of their economies), intellectual property issues, information technology and e-commerce, and the vast service sector, which runs the gamut from telecommunications infrastructure to invisible services such as banking, financial, and insurance services.

The Seattle Debacle

However, the meeting of the WTO in Seattle in 1999, resulted in a dead-lock and was unable to initiate a new round of trade negotiations between the key players. Moreover, street demonstrations in Seattle, represented the disenchantment of the public and special interest groups with the "darker" side of globalization. Both organized labor and environmental groups joined forces to demonstrate against the WTO. The complaint was that MNCs were taking advantage of trade agreements to exploit labor and pollute the environment. The WTO claims to be responding to this charge by supposedly making its decision-making process more transparent and accountable. However, the next round of trade negotiations was able to move forward in Doha, Qatar, at the WTO Ministerial in November 2001. The Ministerial Declaration that was adopted at the time emphasized the need to pay particular attention to the needs of the least developed countries, who had become increasingly marginalized from the world economic system as a result of the process of globalization.

Developing countries and sympathetic NGOs such as OXFAM have complained that the WTO operates to protect the interests of the rich industrialized countries. There is a need to level the playing field of international trade, especially in connection with such issues as the subsidization of agriculture in the industrialized states, which hurts the ability of the developing states to find export markets in the advanced states for their agricultural products.

Multinational corporations also have taken advantage of globalization by exploiting the resources and cheap labor of the developing countries. There have been efforts on the part of the U.S. government to link trade agreements to the observance of international core labor standards and environmental standards. Developing countries have protested that this policy undercuts the comparative advantage and competitive edge which they enjoy through the utilization of cheaper labor and looser environmental standards. There clearly is a need to improve the ability of both the WTO and the International Labor Organization to enforce the international labor standards that have been identified as core