Handbook of the International Political Economy of Trade

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HANDBOOKS OF RESEARCH ON INTERNATIONAL POLITICAL ECONOMY

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Trade is the area of international political economy (IPE) that is monitored the most directly by key actors, both public and private, from individuals to the global trade regime. It carries with it profound questions and issues about property rights and the role of the state, foreign direct investment and investment agreements, integration and regionalism, development strategy and inequality, international collaboration and governance, and transnational networks and coalitions. For research in international politics and IPE, trade is the preeminent domain for studying the interconnections of domestic and international politics. From understanding the evolution of labor and children's rights, to the horizontal and vertical shifts in authority levels under globalization, or the legalization of dispute settlement in both public and quasi-public domains and the establishment of a coherent body of international trade law, trade leads the way for other domains of IPE. Furthermore, trade is profoundly interconnected with the other main areas of IPE, from international production to investment, state-owned enterprises, energy markets, technologies and sustainability, money and exchange rates, and the Internet. In other words, trade is fundamentally political, as well as regional and inter-continental.

The Edward Elgar Handbook of the International Political Economy of Trade brings together the most important and promising research and policy questions regarding international trade. The authors are leading thinkers and writers from different countries representing a range of disciplines from political science and political economy to law and economics. Their work presented here begins with fundamental theory about trade as international communication, as well as its longer-term effects on growth and inequality. It then examines trends in the domestic politics of trade, and how government trade policies lead to optimal or suboptimal contributions to growth and development. In particular, the authors highlight how US and EU trade policy could be much more development-supportive, and how food and agriculture policies in particular call out for reform and opening.

The volume then covers in sequence the strong recent trend towards bilateral and regional trade (and investment) agreements and their
implications, key issues of how trade is governed globally, and how trade continues to define and advance globalization. The conclusion highlights critical implications of the broader and deeper connections between societies worldwide caused by the flow of ideas over the Internet and of people through immigration.

In sum, this volume illustrates that over recent decades international political economy is the sub-field of international relations that has contributed the most in theoretical terms, and trade is very likely the most researched area of IPE. Thus it is no surprise to find frontier insights and debate in the IPE of trade about the basic politics of national economic policy as well as international economic exchanges, connections, and engagements.

THE FAILURE OF INTERNATIONAL POLITICAL LEADERSHIP IN ADVANCING GLOBAL TRADE NEGOTIATIONS

Perhaps the single most important dimension of trade policy and politics over the past decade is the crucial shortfall of international political leadership. Neither US, European, Brazilian, Indian, or other heads of state, nor the US Trade Representative, the EU Trade Minister, the World Trade Organization (WTO) Director-General, or other leading trade ministers have stepped forward alone, or especially in small groups, to provide the critical catalysts required to revitalize the global trade negotiation process. The July 2004 Geneva Package included significant aspects of what was not agreed in Cancun as of December 2003, but the progress stalled and then stopped after the July Package. Especially after the Hong Kong Ministerial in 2005 and its aftermath in 2006, scholars began to question whether the global process is even still relevant, and since then some have essentially declared it moribund.

This failure is sometimes attributed to the relatively low level, as compared to the Uruguay Round, for example, of business support and enthusiasm for the Round. This is certainly one contributing factor to the lack of leadership, and particularly by the largest market countries. At the same time, I believe that the deep political rift between US, European, and other leaders after the US invasion of Iraq in March 2003 is a more important explanatory factor in the lack of US and EU focus on, and initiative in, generating the critical small-N group consensus and leadership required to activate the Round. Additional key explanatory factors are the great recession of 2008–09 in the United States and the economic crises of several European states and the euro
from 2010 to 2012. Certainly American foreign policy was consumed by the war on terror, the insurgency in Afghanistan by 2003, and the seriously escalating insurgency in Iraq by 2004–05. In addition, the overall reputation and public opinion of the US Bush administration by 2005–06 was not amenable to broad leadership, except for the war on terror, which was emphasized above all else. There were deep, enduring costs to US foreign policy of pursuing simultaneously the so-called “war on terror” and major counterinsurgencies in both Afghanistan and Iraq from 2004 onward. Other important foreign policy priorities were either no longer feasible, including intensive small group international trade policy leadership, or could not compete for the time and resources of top decision makers.

Furthermore, once profound economic crisis had gripped the US by late 2008, the highest-level US government efforts shifted to manage the crisis, and leaders were engulfed in crisis management for 2009–10 in response to the US great recession of 2008–09 and its international ramifications. Indeed, the new Obama administration was forced to focus its intensive efforts on damage control for the economy before it even formally began to govern in 2009. When the crisis reverberated internationally and European countries faced deep sovereign debt challenges by 2009 onward, all European leadership focus turned to managing the crisis in Europe. In light of the crisis gripping European economies from Ireland to Portugal, Spain, and Greece since then, it is no wonder that global negotiations have not been revitalized. Thus, it is important to acknowledge that crisis management dominated the years from 2008 to 2012. In addition, the processes engaged over the past few years to concoct multiple free trade agreements (FTAs) and regional trade agreements (RTAs) worldwide have taken up much of the political capital and time available for trade policy liberalization efforts in key countries. The US executive branch, for example, has made the European and Pacific deals, the Transatlantic Trade and Investment Partnership (TTIP), and the Trans-Pacific Partnership (TPP), respectively, its top international trade negotiation priorities. In addition, it has exerted considerable effort in reaching and implementing fully the bilateral agreements with South Korea, Singapore, and Australia, as well as expanded trade with the Association of Southeast Asian Nations (ASEAN) member states.

At the same time, however, leading public international organizations, economists, political economists, and trade policy experts generally agree that a substantial global trade deal would be one of the most helpful steps to longer-term economic growth and development of economies worldwide. There is little doubt that the most promising way to accelerate growth and broaden the base of its beneficiaries is to enact a substantive
Doha Round agreement that includes fundamental reforms to agricultural trade regarding export subsidies, tariffs, and domestic support programs. Yet political leaders are working on the most feasible instead of the clearly optimal. With the US wars in Iraq and Afghanistan over, the major economic and financial crisis in the EU apparently continuing to decline in intensity, and a second-term US president who will most likely be able to work with Republicans in the House on little else beyond trade policy reform, it is certainly the time to step up and advance a serious Doha Round agricultural and broader agenda.

US, EU, Indian, Brazilian, Japanese, and Chinese leaders might instead end up presenting the Bali Package agreed by all WTO trade ministers in December 2013 as their signature achievement. There is an argument for this agreement as not only substantive but also a breakthrough, as no new global deal had been agreed over the 18 years since the founding of the WTO in 1995 or the 12 years from the initiation of the Doha Round in late 2001. The customs clearance and transparency and efficiency elements of the trade facilitation, or primary focus of the deal, are both serious and substantive, and will contribute significantly to trade expansion and economic growth worldwide. In addition, to the extent that developing countries actually implement the specific reforms to reduce inefficiency and corruption inherent in trade flows across their borders rather than relying on opt-outs, a major fraction of the benefits of this agreement would flow to them. Furthermore, other narrow elements such as the reform, especially improved management and greater "filling," of tariff quotas for agricultural imports, as well as assuring the required financial and technology support for developing countries to implement the agreement, are also valuable contributions to productivity and efficiency in trade and its role in economic growth.

At the same time, with regard to the core issues of agricultural trade reform, phasing out export subsidies, sharply reducing tariffs, and further substantial reforms of domestic support programs, the agreement only specifies that members are committed to establishing a specific negotiating agenda and reaching a deal as soon as possible, and certainly before the next, tenth Ministerial meeting in 2015. This is hardly a breakthrough or any binding commitment that could trigger the necessary political compromises required of the key leaders, beginning in the several largest trading states. At best it provides some momentum towards a broader agreement, and it indicates that the prospect for major agricultural reform (still considerably narrower than the original Doha Development framework) is now more feasible. Finally, however, I note that a recent WTO report on trade measures enacted by the largest, or G-20, states from mid- to late 2013 is not encouraging in that the number of new trade restrictions
increased while the number of new trade-facilitating measures decreased, as compared to the prior period.

Leaders in many countries worldwide have shown their strong priority for a vast array of bilateral and regional trade, or trade and investment, agreements, and therein established a fundamental pattern of activity and arrangements. Trade policy processes do appear to be substitutable in that, when one level is stymied, others emerge in its place. In fact, some policy experts and scholars are musing whether the most likely route back to a broader, substantive global agreement is a major success with either the broad-based US-European framework or even a transpacific one. Indeed, it appears that the EU–Canada trade pact completed in 2013 (in principle) has helped to catalyze and accelerate EU–US negotiations, which might in turn help advance the transpacific process (or vice versa).

It is important to ask whether these RTAs could still be pursued in the larger US trade policy context of those in the 1980s and 1990s, or “competitive liberalization.” If US leaders are willing to use progress with either of these large frameworks as a lever to help convince key countries to negotiate more positively in the Doha Round, then it is possible to see a wider range of options to energize small group international political leadership. However, it may be more that key countries this time around see the transpacific and transatlantic negotiations as stand-alone arrangements to substitute for still mainly “failed” negotiations at the global level. This view could be supported by the narrowness of the relatively modest agenda and outcomes of the December 2013 Bali Ministerial meeting within the Doha Round involving mainly trade facilitation and reform of tariff rate quotas in agriculture.

In this environment, it is important to ask whether any of these broad regional efforts promise the kind of economic stimulus and political platform required to once again connect trade policy liberalization with worldwide improvement in economic growth and poverty alleviation. After the conclusion of the Uruguay Round in 1994, the World Bank and most other estimates expected growth rates worldwide to be increased significantly over the following decade. It appeared that another noticeable boost to world growth could be generated as the Doha Round was launched in late 2001. Even the relatively modest negotiating modalities from the 2008 Ministerial have been estimated to provide very substantial increases in income for countries worldwide. Unfortunately, however, this vital opportunity for a major boost to growth has been forfeited, as the process, which had got bogged down by 2005, became relatively inactive by 2007–08. There is no better time than the second term of a US presidency, post-national elections in India in 2014, and very weak economic growth in Europe to have top US and EU foreign policy leaders reach out to form
a G-5 consensus group for international political leadership on trade with India, Brazil, and China.

There is a serious difficulty with the exclusive focus on bilateral and regional agreements and commitments. Without global talks underlying all these new arrangements the overall effects are clearly suboptimal. First, large countries and markets as well as many intermediate-size ones are left out in part, if not entirely. Brazil, India, China, Russia, Argentina, and Indonesia are not included in either of the major US negotiating priorities. Thus, much of the world’s trade is not included, and these countries will become ever more interwoven into their regional and inter-regional trade networks and likely less fully committed to making the global trade rules and procedures their highest priority. Second, crucial issue areas led by agriculture are likely to be substantially omitted and therefore continue as very closed, suboptimal market areas. (Note: The EU–Canada agreement does include some agriculture.) Indeed, the countries with the largest agricultural protection programs and barriers generally refuse to negotiate them in bilateral or multilateral deals in order not to lose leverage in global negotiations. This forfeits major potential boosts to growth, innovation, and market reform at the international as well as national level.

Next, it continues to bisect and trisect world markets into mainly more dynamic regions, and reinforces the most intensive bonds across OECD member states in intra-industry trade. Certainly, in more technical terms, each of the FTAs and RTAs becomes more efficient in its purposes and/or outcomes if there is a global agreement that reduces most favored nation (MFN) tariffs. Trade diversion is much less likely for members of new FTAs and RTAs if they also establish a new global reform framework. Finally, it leaves the new WTO Director-General, Roberto Azevedo, in particular and the more general global governance mechanisms without the international political leadership that is crucial to help stimulate deeper coordination in other issue areas such as foreign direct investment, environment and climate change, and labor and human rights.

International political leadership for the Doha Round will have to contend with the following:

1. It will have to turn around the weak support there has been from the US, EU, India, and Brazil since 2008. First and foremost, each of these countries or their top leaders would have to make this a high-level priority and commit to providing consistent pressure on the others. Indeed, it is particularly important to do so in 2014 instead of falling back on the excuse, rather than the “accomplishment,” of the successful Bali Package of December 2013. Certainly the US president could, in principle, take up this leadership challenge in his second
term, despite the deep difficulties posed by a deadlocked congressional process. There is already some indication from US House Republicans that they might support a global trade reform agreement. The US and EU presidents will have to challenge the Chinese, Brazilian, and Indian heads of state to step up and re-establish common ground around foreign policies despite substantial differences in the domestic regulation of public procurement and foreign investment (see Chapter 19 in this volume). Furthermore, all of these states have significant overlapping (along with the conflicting) interests in related issue areas of food supply, energy markets, and climate change that might be linked informally.

2. With the concerted efforts mainly focused on RTAs at the moment, some new combination of emphasis would have to be constructed. Beginning with Indian, US, and EU leaders, they would have to exhibit their leadership by regularly announcing support for pursuing the agricultural reform efforts emphasized again in the Bali Package. One way to encourage this is once again to present significant early progress on the US–EU and Transpacific RTAs as a way to help engage India and Brazil, but there is no assurance that either of these large-scale regional negotiations will succeed before a global, WTO framework could be agreed.

3. Each key leader will have to break loose of, and offer targeted compensation in response to, serious domestic political constraints, including important labor groups in the US and EU. Top leaders have to build support for the global talks that is based on key advantages presented to the most powerful domestic constituencies, as well as gain the active support of the pro-liberalization groups such as green energy firms. Elections in India in 2014 may help increase its key leaders’ willingness to negotiate a serious, substantive agreement on agricultural reform. This, in turn, could encourage US and EU negotiators to play a stronger international political leadership role.

THE THEMES, SCOPE, AND FINDINGS IN THIS VOLUME

Our definition and approach to trade are necessarily broad based. As Montesquieu argued, trade is as much about communication as it is strictly commercial activity. We understand today that it shapes, indeed defines, in part the nature of human, organizational, and national interactions. Some cultures are designed around trade; some economies are very heavily reliant on it; and what we call globalization today is substantially