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"Free trade" in trouble in the United States

By Martin Khor

As free trade reaches a crossroads in the US, developing countries have to rethink their own trade realities for their own development interests.

"Free trade" seems to be in deep trouble in the United States, with serious implications for the rest of the world.

Opposition to free trade or trade agreements emerged as a big theme among the leading American presidential candidates.

Donald Trump attacked cheap imports especially from China and threatened to raise tariffs. Hillary Clinton criticised the Trans-Pacific Partnership Agreement (TPPA) which she once championed, and Bernie Sanders' opposition to free trade agreements (FTAs) helped him win in many states before the New York primary.

That trade became such a hot topic in the campaigns reflects a strong anti-free trade sentiment on the ground.

Almost six million jobs were lost in the US manufacturing sector from 1999 to 2011.

Wages have remained stagnant while the incomes of the top one per cent of Americans have shot up.

Rightly or wrongly, many Americans blame these problems on US trade policy and FTAs.

The downside of trade agreements have been highlighted by economists like Joseph Stiglitz and by unions and NGOs. But the benefits of “free trade” have been touted by almost all mainstream economists and journalists.

Recently, however, the establishment media have published many articles on the collapse of popular support for free trade in the US:

> Lawrence Summers, former Treasury secretary, noted that “a revolt against global integration is under way in the West”. The main reason is a sense “that it is a project carried out by elites for elites with little consideration for the interests of ordinary people”.

> The *Economist*, with a cover sub-titled “America turns against free trade”, lamented how mainstream politicians are pouring fuel on the anti-free trade fire. While maintaining that free trade still deserves full support, it cites studies showing that the losses from free trade are more concentrated and longer-lasting than had been assumed.

> *Financial Times* columnist Phillip Steven’s article “US politics is closing the door on free trade” quotes Washington observers saying that there is no chance of the next president or Congress, of whatever colour, backing the TPPA. The backlash against free trade is deep as the middle classes have seen scant evidence of the gains once promised for past trade deals.

> In a blog on the *Wall Street Journal*, Greg Ip’s article *The Case for Free Trade is Weaker Than You Think* concludes that if workers lose their jobs to imports and central banks can’t bolster domestic spending enough to re-employ them, a country may be worse off and keeping imports out can make it better off.

Orthodox economists argue that free trade is beneficial because consumers enjoy cheaper goods. They recognise that companies that can’t compete with imports close and workers get retrenched. But they assume that there will be new businesses generated by exports and the retrenched workers will shift there, so that overall there will be higher productivity and no net job loss.

However, new research, some of which is cited by the articles above, shows that this positive adjustment can take longer than anticipated or may not take place at all.

Thus, trade liberalisation can cause net losses under certain conditions. The gains from having cheaper goods and more exports could be more than offset by loss of local businesses, job retrenchments and stagnant wages.

There are serious implications of this shift against free trade in the US.

The TPPA may be threatened as Congress approval is required and this is now less likely to happen during Obama's term.

Under a new president and Congress, it is not clear there will be enough support.

If the US does not ratify the TPPA, the whole deal may be off as the other countries do not see the point of joining without the US.

US scepticism on the benefits of free trade has also now affected the multilateral arena. At the World Trade Organization, the US is now refusing attempts to complete the Doha Round.

More US protectionism is now likely. Trump has threatened to slap high tariffs on Chinese goods. Even if this crude method is not used, the US can increasingly use less direct methods such as anti-dumping actions. Affected countries will then retaliate, resulting in a spiral.

This turn of events is ironic.

For decades, the West has put high pressure on developing countries, even the poorest among them, to liberalise their trade.

A few countries, mainly Asian, staged their liberalisation carefully and benefited from industrialised exports which could pay for their increased imports.

However, countries with a weak capacity, especially in Africa, saw the collapse of their industries and farms as cheap imports replaced local products.

Many development-oriented economists and groups were right to caution poorer countries against sudden import liberalisation and pointed to the fallacy of the theory that free trade

is always good, but the damage was already done.

Ironically, it is now the US establishment that is facing people's opposition to the free trade logic.

It should be noted that the developed countries have not really practised free trade. Their high-cost agriculture sector is kept afloat by extremely high subsidies, which enable them to keep out imports and, worse, to sell their subsidised farm products to the rest of the world at artificially low prices.

Eliminating these subsidies or reducing them sharply was the top priority at the WTO's Doha Agenda. But this is being jettisoned by the insistence of developed countries that the Doha Round is dead.

In the bilateral and plurilateral FTAs like the TPPA, the US and Europe have also kept the agriculture subsidy issue off the table.

Thus, the developed countries succeeded in maintaining trade rules that allow them to continue their protectionist practices.

Finally, if the US itself is having growing doubts about the benefits of "free trade", less powerful countries should have a more realistic assessment of trade liberalisation.

As free trade and trade policy reaches a crossroads in the US and the rest of the West, developing countries have to rethink their own trade realities and make their own trade policies for their own development interests.

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