

## ***SouthViews***

No. 137, 28 November 2016

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# **APEC, free trade and the WTO**

**By Humberto Campodónico**

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The implementation of bilateral free trade agreements, the FTAs, began 25 years ago, with the North American Free Trade Agreement (NAFTA) between Canada, Mexico and the United States. The European Union, which was initially reluctant to sign bilateral FTAs, also adopted them. In our region, Chile was the first South American country to sign an FTA with the US. Then came Peru and Colombia.

Why did countries prefer bilateral agreements - and then the larger FTAs, such as the Trans Pacific Partnership that has the participation of 12 countries - instead of negotiating at the World Trade Organization (WTO)? Let us recall that from 1948 to 1995 there were 8 negotiation rounds with the participation of all of its members, which reduced tariffs sharply, with the objective of facilitating and promoting free trade.

There are several reasons, but two are the most important. In the WTO, all agreements are by consensus. If there is a country that opposes a proposed agreement, it will not be approved and the WTO is paralyzed. This is what has happened with the last round, the Doha Round, which began in 2001 and is almost dead.

The other is that the participation of developing countries and so-called "emerging countries" in the global economic and trade relations has grown enormously since World War II. And they are well aware of their interests, which in many cases are different from those of the industrialized countries.

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In the agricultural sector, for example, emerging markets oppose the multi billion dollar subsidies to agricultural products that are given by industrialized countries because they artificially lower prices of food staples, something that is considered to be unfair competition for local agricultural producers of developing countries. The same goes for the proposals for deregulation of foreign investment and competition policies, themes of the Singapore Issues. They did not have consensus and were excluded from the Doha Round Agenda.

Added to this is China's entry into the WTO in 2001, as a result of its new economic and trade policies. As China has a mixed economy - with significant state participation alongside private companies - the policies of complete and immediate liberalization and deregulation were not implemented. The Chinese government followed the ancient proverb: "We have to cross the river touching each stone with our feet", which saved China from adopting neoliberal policies in a short period of time, something Russia did - with very negative results - after the fall of the USSR.

As we can see, industrialized countries could not impose their own agenda in the WTO. That is why they turned to use FTAs, where they negotiate with smaller countries and achieve "WTO plus agreement" (WTO +), so called because they go beyond what has been agreed in that forum. The huge amount of FTAs signed has been called "spaghetti bowl", because nobody knows where they start or where they end.

That is not all. FTAs collide with the argument of the "neoliberal optimum" that says that multilateral agreements (in the WTO) are better than bilateral agreements. In the WTO, the most important clause is the "most favored nation", which means the following: any tariff reduction made by one country to another country must be obligatorily granted to all other country members of the WTO. Thus, all country members of the WTO get treated as the "most favored nation". But this does not apply in FTAs because tariff reductions - and all other issues - concern only the two (or more) countries negotiating the FTA.

Because of this, the central argument of negotiators (of countries like Peru) for signing an FTA turns foul: "If I sign, I have immediate access to the industrialized country's market. I also have an advantage over those countries that have not yet signed an FTA with it, because they are out of that big market". The outcome is the disappearance of the statute of Most Favored Nation. This is the equivalent of saying "farewell" to the optimum of commercial solidarity.

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The election of Donald Trump and his decision of dumping the TPP means that we are going to have discussions about theoretical background themes that will occupy the scene for many years. One of them is that, contrary to what is said by the neoliberal approach, "free trade" has winners and losers. Always. Not all "free trade" is good per se, as many neoliberal economists say. If that is not taken into account, the protests of the losers of "free trade" will gradually become loud. It also has to be stated that "free trade" has not been the central driver of the economy in recent years because it has shared that place with Chinese economic growth.

Another issue is the technological innovations that made globalization possible: for multinational companies production takes place anywhere in the world and the world market replaces domestic markets. Those who favor FTAs say that if a factory leaves the US and people lose their jobs, there is not much to worry about because there will be a more modern factory to replace it. But that is not what happens because, even with more training, there are jobs that never come back. And the unemployed will complain, loudly, to their Nation-State, especially in elections.

There is also a geopolitical theme in this era of economic and political hegemony changes. For Obama, the TPP (without China) negotiated in secret (why?) was designed to set the rules of the game in Asia in the 21<sup>st</sup> century, according to the interests of their companies. After the Trump announcement, that is not possible anymore.

Can there be another "free trade" alternative? Can this alternative be the Free Trade Area of the APEC, called FTAAP, proposed in Lima in the final day of the Forum? We see it difficult because that is not the policy of President elect Donald Trump. In addition, we find that Russia and China belong to APEC, countries that know how to defend their interests. As they do in the WTO.

Faced with this situation, why continue insisting on "bits and pieces" FTAs? Would not it be better to get the WTO out of the intensive care unit? "Free trade" would not advance at the speed of light (which is precisely the root of the problem), but objectives and goals would be more reliable (and less prone to "populist policies and protectionist setbacks") because negotiations in the WTO have to take into account the concerns of all countries, and not just the interests of multinational corporations, which is the cause of the enormous inequality that exists today.

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In any case, the discussion about a new kind of globalization and free trade, which takes people into account, has just begun.

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