

As G-8 meets, free trade under fire

Recent economic woes are raising new doubts about the benefits of globalization.

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The long trend toward open trade and global markets is under new stress as problems from food shortages to climate change test its staying power.

The march toward economic globalization is not shifting into reverse gear, but it shows signs of deceleration as leaders of the developed world meet in Japan this week for their annual summit.

They'll be focusing on issues of immediate concern – from how to tame the alarming inflation levels to non economic concerns such as delicate nuclear diplomacy with North Korea. But their agenda also includes a more general problem: how to maintain expansion of global commerce, which has helped many countries reach new levels of prosperity but has costs as well as benefits for workers.

This problem isn't new, but it has greater urgency this year because of a slowing economy that has dampened consumer confidence worldwide. The rising clout of emerging economies adds another challenge – balancing the interests of rich countries against those of developing nations.

Finding the right path forward is tricky.

"There's real risk here, and the stakes are pretty high" says Michael Spence, an economist who recently chaired a commission on global development. "The main thing that's enabled the high growth where it's occurred ... is really access to the global economy."

The trials of 2008 – soaring food and energy prices and a downturn in the vital US economy – are just the sort of environment in which doubts about free trade often increase. But this environment may also represent an opportunity, a nudge for world leaders to make sure that the benefits of economic policies are shared as widely as possible.

"Part of the problem here is that we've had too little attention ... to the distributional issues," says Mr. Spence, a senior fellow at the Hoover Institution in Stanford, Calif. That concern came through loudly in an international poll released early this year. The majority of the public in 27 out of 34 countries surveyed said the benefits and burdens of economic change are not being shared fairly.

Still, most people around the world don't wish to backtrack entirely on globalization. It's more that they want to see the process better managed, according to the BBC poll, which was conducted by Globescan and the University of Maryland's Program on International Policy Attitudes. Half of those surveyed said trade and global investment are growing too quickly, while 35 percent said "too slowly."

This blend of hope and anxiety forms the backdrop as leaders of the Group of Eight industrialized nations start their formal summit on Monday in Toyako, Japan. Some developing nations, though not officially in the G8 club, are also represented at the meeting.

In both group and one-on-one discussions, the top issues include economic ones such as:

- How to ease a crisis of food prices that are now out of reach for millions of the world's poorest people. To some economists, the problem is one sign of how globalization has faltered or not gone far enough. "Government actions around the world have added to the problem – from rich country trade barriers to export controls [recently imposed] by food-producing countries" in the developing world, says Daniel Griswold, a trade expert at the libertarian Cato Institute in Washington.
- How to confront the threat of global change. This environmental challenge is also an economic one, since taming carbon emissions is particularly difficult at a time when billions of people aspire to middle-class lifestyles. Here, too, the question of balancing the burden between developed and developing nations is central. Even as G-8 nations talk of providing billions of dollars in carbon-control aid to poorer countries, setting national caps on emissions remains as difficult as ever.
- How to revive the current round of global trade negotiations. The so-called Doha Round of talks, named for the city where the negotiations began in 2001, has repeatedly stalled. If successful, the agreement would be the latest in a succession of worldwide deals that have expanded global markets since the 1960s.

But if progress isn't made this month, some experts say the failure would be a symbolic blow to the cause of global cooperation in economics.

"Never in recent memory has the global economy been under such stress," United Nations Secretary General Ban Ki Moon said in a written outline his hopes for the Japan summit. "More than ever, this is the moment to prove that we can cooperate globally to deliver results: in meeting the needs of the hungry and the poor, in promoting sustainable energy technologies for all, in saving the world from climate change – and in keeping the global economy growing."

Economists broadly agree, as they long have, on the substantial benefits of free trade. But what's becoming clearer in the past few years are the caveats: Trade is not a one-step recipe for growth, and it comes with costs that can include falling wages for workers who face new competition from lower-paid counterparts in other countries.

Weakening economic growth only adds to the challenge, especially since America – the nation that for decades has led the push toward open economics – is in or near recession. "Backlashes against free trade always happen when the economy is slowing," says Bart Van Ark, chief economist at the Conference Board, a business-funded research group in New York.

Whoever wins the presidency in US elections this fall will have to devise ways to better compensate workers who lose out as trade expands, he says.

Developing nations, as well as rich ones, confront social concerns over how to share the costs and benefits of trade.

The Commission on Growth and Development, whose sponsors include the World Bank, argued in a May report that emerging nations should have policies to curb widening income gaps between rich and poor.

"Otherwise, the economy's progress may be jeopardized by divisive politics, protest, and even violent conflict," the report said.

Integration with the world economy has helped the most successful developing nations. But free-trade rules should be flexible enough that they don't stymie domestic development strategies of poor nations, says Spence, the commission chair.

That's one reason why global trade talks remain very complicated affairs.

Another factor: The growing diversity of nations who have a seat at the negotiating table.

"There are more countries that have a stake in these negotiations than in any previous round," says Jeffrey Schott, a trade expert at the Peterson Institute for International Economics in Washington. This "complicates the task of putting a deal together."

Yet even many critics of the World Trade Organization don't want to scrap the organization and its system for resolving disputes.

Despite the worldwide concern about the current path of globalization, "the only thing worse would be a world without the WTO [World Trade Organization]," says Tony Avirgan of the labor-oriented Economic Policy Institute in Washington, D.C.

He's coordinating the Global Policy Network, with member organizations worldwide that hope to develop a new, worker-friendly model for trade policy by the time the US elections are held in November.