

# Beyond the Trade Pact Collapse

By David E. Sanger  
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Over the last two decades, China has managed to turn the forces of globalization into the most successful antipoverty project the world has ever seen. So how does one explain the fact that when the latest round of global trade negotiations blew up for good last week, ending seven years of talks to lower tariffs and free up trade around the world, it was China with a hand on the detonator?

The answer has a lot to do with how the world — and China in particular — has changed, and a lot to do with how the Chinese see the world that's coming. In that world, countries like China and India will have much more clout at the bargaining table because they have much greater economic power than in the past.

It is not that the Chinese think the great era of globalization is over. Far from it. The glistening Beijing of today was built on dollars, yen and Euros earned around the world, and now being lent back to the United States.

But the era in which free trade is organized around rules set in the West — with developing nations following along — definitely appears over, and few are mourning its demise. Even in America, where for years free trade advocates assumed their own country would be the biggest winner, advocates of the system are on the defensive.

Only eight years after Bill Clinton left the White House talking about how free trade played to America's every strength — particularly its knack for innovation — Senator Barack Obama has been trying to win back the White House for the Democrats by talking about renegotiating Clinton's trade deals, starting with Nafta.

The system is being rethought, as well, in China and India and other countries that spent the 1990s trying to become integrated into the global trading system by accepting the West's rules. They applied to join the World Trade Organization, using its mandates to speed up reforms at home and pump out cheap exports. But now they are done with that phase.

When the Chinese finally took the so-called Doha round of trade talks off of life support last week, teaming up with India to say they would not stop protecting farmers in order to get tariffs reduced on their expanding industrial exports, it was no surprise.

This wasn't about tariff rates. It was about a fundamental shift in power — sophisticated manufacturing capacity, know-how and capital — that the United States, emerging from its own preoccupation with two wars, is just beginning to appreciate. “This doesn't mean

the breakdown of globalization, the end of trade, or back into some pre-World War II kind of protectionism,” said Adam Segal, a senior fellow at the Council on Foreign Relations who studies China. “The Chinese just feel that they don’t have to put up with people lecturing to them anymore about how to manage their economy.”

Especially Americans.

On the surface, the immediate cause of death for the trade deal that expired last week would seem to be blunt-force trauma inflicted by India, whose government could not abide further opening of agricultural markets. There were other apparent causes, too. No one wanted to strike a deal with an outgoing American president. And the Chinese, whose economy is already more open than that of many nations, sided with India. To the Chinese, everything is about stability, and China’s impoverished farmers, the country’s leadership seemed to fear, are restive enough these days.

But to Charlene Barshefsky, the United States trade representative in the Clinton administration, there was something else as well: “The model of this kind of ‘global round’ is simply no longer viable. They are irrelevant. You have trade surging around the world — in financial services, information technology, telecommunications — and everything gets held up for years because you are arguing about farm products.”

Ms. Barshefsky favors a very different approach: the signing up of a limited number of big players in deals that are specific to the most important industries.

In the 1990s, when it was tried, this approach appealed to some of the most ambitious emerging economies. But for a correspondent who lived in Asia in the ’80s and ’90s, covering its economic rise, a recent trip back to China was a revelation about how dramatically economic power itself has shifted.

Until Japan’s economy drove off a cliff, there was a running argument in Asia about whether it would be wiser to follow the “Japan model” — with its megacorporations, jobs for life, state control of strategic industries — or the “American model” of largely unfettered markets.

When Japan was on the rise, American governors would come to inspect Toyota City and study “just in time” manufacturing to increase efficiency; when America was at its peak in the late 1990s, the world beat a path to its venture capitalists.

There is no single “China model” to running a mega-economy. Instead, it is a blend. From the Europeans and the Japanese, the Chinese have borrowed the concept of protecting essential industries. So the state is striking exclusive oil deals around Africa, keeping a loose but steely hand over media outlets, and cracking down — even executing a few people, when needed — to respond to scandals involving tainted food or defective goods.

But the Chinese realized quickly that Japan's downfall came in part because it never created a culture of innovation. The Chinese know they do not want to be assembling low-cost goods for long — and so they are experimenting with companies like Lenovo. Lenovo, a sophisticated computer manufacturer, is also a Chinese corporate sponsor of the Olympics. Its design won the competition for the Olympic torch — an intended symbol of China's rise to the rank of a near superpower that, during its relay around the world, also came to signify Chinese repression in Tibet and beyond.

Lenovo makes ThinkPad laptop computers, a business it acquired by purchasing I.B.M.'s entire personal computer operations two and a half years ago. So perhaps it's no surprise that the torch, which curves upward into an ethereal cloud, has the distinctive feel of a sleek laptop.

The laboratory that produced the torch has also produced a new series of lightweight, stylish laptops that were designed by a team of young, highly internationalized Chinese. But when I asked them what they thought about the fact that their torch had become the object not only of pride for China, but of protest against it, a member of the design team stopped and said: "We don't talk about politics much. We've got too much to do."