

Free-Trade Era May Be Nearing End Amid Food, Growth Concerns

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After six decades of ever-expanding international commerce, the high tide of free trade is ebbing.

As tens of thousands of South Koreans protest U.S. beef imports, rising commodity prices push nations to keep more food for domestic consumption and the U.S. chooses a new president who might be less supportive of free trade than his immediate predecessors, the world may be facing the end of a cycle that began in the immediate aftermath of World War II.

The liberalization of global trade has come "to a screeching halt," said Fred Bergsten, director of the Peterson Institute for International Economics in Washington. "It'll take years to rebuild the foundations of free-trade policy."

The cause is more political than economic. "This is a challenging time to be in the pro-trade wing of any party in virtually any country," U.S. Trade Representative Susan Schwab said June 12 at the U.S. Chamber of Commerce. "It's hard to be for open trade, whether you are in India or the European Union or in China."

Fueling the backlash is a convergence of trade-related anxieties: national-security concerns, worries about food safety and sufficiency, the desire to protect local jobs and the environment. In addition, the benefits of trade are often widely dispersed -- think low prices at Wal-Mart -- and entail high adjustment costs, including the loss of manufacturing jobs.

Beggar-Thy-Neighbor

The modern era of trade dates to the late 1940s, when the U.S. and United Kingdom pushed for the establishment of a global organization to avoid the beggar-thy-neighbor policies often blamed for exacerbating the Great Depression.

The General Agreement on Tariffs and Trade, established in 1948, succeeded in cutting industrial duties in developed countries from an average of 40 percent to about 4 percent over six decades.

Now known as the World Trade Organization, it is stuck in negotiations that began in 2001 over U.S. and European agricultural subsidies. The Doha Round, as the talks are

called, has also been held up by disagreements between rich and poor countries about how much to reduce import taxes.

“The Doha Round isn't dead yet, but it's being pushed around a nursing home,” said Doug Goudie, director for international trade at the National Association of Manufacturers in Washington.

The EU's Concerns

European Union trade negotiators expressed concern this week about “a re-emergence of protectionist sentiment in the U.S.” after Congress approved a new \$289 billion farm bill that extends price supports and other subsidies developing nations oppose.

The bill “heads agriculture policies in the wrong direction at a decisive juncture” of WTO negotiations, a group of agriculture-exporting countries led by Brazil said in a June 3 statement. “The unfair competition brought by subsidies hinders the process of market liberalization.”

Reservations about a new WTO agreement have grown into a general aversion to free trade in many countries, including France and Italy, where cheap imports are blamed for job losses. That's causing some governments to rethink their pro-trade policies.

Most important is the U.S., the world's largest economy and biggest importer. Democrats, who took control of Congress in 2007, have postponed a decision on a trade deal with Colombia by amending so-called fast-track authority, which guards against amendments and filibusters and requires a timely vote.

Undermining the Foundation

Their action “undermined the whole foundation of U.S. trade policy,” Bergsten said, adding that it creates a loss of confidence in the U.S. to lead the way on trade. Luis Guillermo Plata, Colombia's trade minister, said April 11 that U.S. rejection of the accord would be tantamount to imposing “trade sanctions” on one of America's staunchest allies.

Meanwhile, Democratic presidential candidate Barack Obama says that if elected, he might reopen the world's largest trade deal, the North American Free Trade Agreement with Canada and Mexico. The Illinois senator, 46, says the pact should include new labor and environmental standards.

Mexican farmers want to renegotiate Nafta too: They shut down Mexico City's main boulevard in January to protest the pact, which they say hasn't done enough to protect them from cheaper U.S. imports of sugar, beans, corn and milk.

All these developments ``are portents that the politics of trade are certainly becoming more difficult," said Claude Barfield, a trade expert at the American Enterprise Institute in Washington.

Shaking South Korea

Nowhere is that more evident than in South Korea, where public anger related to a pact aimed at increasing trade with the U.S. by 20 percent is shaking the government of President Lee Myung Bak. Lee has seen his popularity plunge from 50 percent when he took office in February to 17.1 percent in a poll this month by Korea Research and the YTN cable news network; his cabinet this week offered to resign over the dispute.

On June 10, about 80,000 South Koreans flooded the streets of Seoul to protest a proposal to resume beef imports from the U.S. Korea must remove the five-year-old ban, which was designed to prevent the possible spread of mad-cow disease, before the U.S. Congress will consider approving the trade agreement, Senate Finance Committee Chairman Max Baucus of Montana said June 11.

Extending the ban would affect South Korean exports of products such as automobiles and semiconductors to the U.S., Lee said the same day.

New Barriers

The 60 percent increase in the price of rice, wheat, corn and other food commodities since the beginning of 2007 has led some nations to erect new barriers to exports to make sure they have adequate supplies at home.

India, the world's second-biggest producer of rice and wheat, has banned shipments of the food grains. Egypt, Vietnam and Indonesia have also banned certain food exports. And Philippines President Gloria Macapagal-Arroyo said her country wants to become self-sufficient in food production by 2010.

``For a long time, it made sense to buy food from the international market," Arthur Yap, the Philippines agriculture minister, said in an interview. ``The situation has changed."

Doug Irwin, an economic historian at Dartmouth College in Hanover, New Hampshire, and author of ``Free Trade Under Fire," said much of the current opposition to trade may subside when commodity prices fall and the U.S. economy recovers.

``Free trade is always being attacked," Irwin said. ``The question is, how high is the threat level?"

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