In my backyard

Multilateral trade pacts are increasingly giving way to regional ones

Ukraine, long pulled back and forth between east and west, is feeling the tug again, this time between rival trade blocks. Next month it hopes to sign a free-trade agreement with the European Union. But Russia wants Ukraine for its own customs union, which already includes two other former Soviet republics. So earlier this year, in a clumsy effort to change its neighbour's mind, the Kremlin banned Ukrainian sweets because they allegedly contained carcinogens, then imposed long, intrusive customs checks that slowed Ukrainian exports of steel, machinery and chemicals to a crawl.

The tiff has geopolitical undertones: Russia does not want Ukraine, with which it has deep cultural and political ties, to drift into the West's sphere of influence. But it also points to a change in the world trading system. Russia joined the World Trade Organisation in 2012, but it is less interested in strengthening the multilateral trading system than in building its own regional trade block. Fyodor Lukyanov, editor of Russia in Global Affairs, a foreign-policy journal, notes that with America trying to conclude sweeping trade agreements with its neighbours in the Pacific Rim and with Europe, "the whole structure of world trade is changing towards a more fragmented system. That's why Russia is trying to build something of its own."

Free-traders in the West worry that the proliferation of regional trade agreements (RTAs) is gutting the multilateral trading system. Arvind Subramanian of the Peterson Institute for International Economics calls the rise of ever larger RTAs an "existential threat" and gives warning that "multilateral trade as we have known it will progressively become history."

The debate about whether RTAs help or hurt the multilateral trading system has gone on for decades. Supporters argued that wherever two countries entered into an RTA, they would create incentives for others to join or to negotiate their own RTA. Trade barriers around the world would fall, one by one, and political support for multilateral deals would increase. Detractors claimed that once inside an RTA, countries would discriminate against outsiders and lose interest in multilateral liberalisation, undermining the authority of the WTO. They would divert as much trade as they created and introduce big distortions.

For most of the post-war period, the optimistic view prevailed as regional and multilateral liberalisation proceeded in tandem, albeit unevenly. The forerunner of the European Union was established in 1957, even as members of the General Agreement on Tariffs and Trade, the WTO's predecessor, continued to cut tariffs. In the 1990s Bill Clinton signed the North American Free-Trade Agreement just as the Uruguay round of trade liberalisation was completed. In the early 2000s China joined the WTO and the EU expanded into eastern Europe.

In the past decade, though, RTAs have increasingly looked like an alternative, not a complement, to multilateralism. The Doha "development" round, which began in 2001, immediately ran into trouble as emerging markets chafed at the central bargain: big cuts in their industrial tariffs in exchange for more access to rich-world agricultural markets. Talks faltered in Cancun in 2003 and finally collapsed in Geneva in 2008. One negotiator recalls going to dinner that night convinced that a deal had been struck, only to learn the next day that it had failed.

As Doha began to founder, the appeal of RTAs grew. The number concluded rose from 104 in 1958-2001 to 154 since then. Many of these are tiddlers, but the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) have the potential to become mega-RTAs accounting for a huge share of global trade. TPP "wasn't initially seen as the big alternative to WTO," says Gary Hufbauer of the Peterson Institute, "but…the US position is, 'If emerging market countries don't want to play ball in the WTO, we have alternatives'."

In need of protection?

The biggest obstacle to more multilateral trade deals is the changing balance of global economic power. Brazil, Russia, India and China (the BRICs) see themselves as countries still poor enough to need protection for their industries while the rich ones lower their own barriers, especially to agriculture. But the rich world increasingly views the BRICs as full-fledged economic competitors whose state capitalism is incompatible with a free and open global economy.

"For too long, much of the economic force and sacrifice in Geneva to produce global trade agreements has come at the expense of the US and EU," says Ron Kirk, who was Mr Obama's first trade negotiator. "We have been lectured over and over by our colleagues from the emerging markets that they have the economic heft and prestige to demand a seat at the table. And we agree." But that, he says, means they too need to make sacrifices by opening up further to America and Europe.

These divisions became clear in the race to elect a new WTO director-general this year. The contest between Herminio Blanco, Mexico's former trade minister, and Roberto Azevedo, Brazil's ambassador to the WTO, became a referendum on Mexico's liberal preferences versus Brazil's protectionist stance. Rich countries backed Mr Blanco while emerging markets plumped for Mr Azevedo, the eventual victor. Mr Azevedo has stressed that he represents the interests of all members.

The emerging markets are not monolithic. They often want protection not just from rich countries but from each other, particularly China. Roberto Giannetti da Fonseca, an official with FIESP, Brazil's largest industrial association, ran a trading company in the 1980s that sold Brazilian manufactured products to China. He struggled to find anything worth buying from China, often settling for arts and crafts. "I could not imagine that 20 years later they'd be invading Brazil with hundreds of products and we'd be crying that we cannot compete." His organisation is a vocal critic of China's mercantilist practices and has urged the Brazilian government to negotiate free-trade agreements with North America and Europe.

Trade liberalisation is now proceeding along two different tracks. One, preferred by America, goes "behind the border", focusing on things such as harmonising safety, health and technical standards, currencies, national treatment of foreign investors, the protection of intellectual property, services such as telecommunications, and enforcement of labour and environmental protection. The other, preferred by China, concentrates on reducing tariffs—outside sensitive sectors.

America started on its track in 2007 when Democrats in Congress struck a deal with President George W. Bush that in future trade agreements, signatories' adherence to environmental and labour standards would be subject to the same dispute-settlement rules as commercial disputes. Sandy Levin, a Democratic congressman who helped negotiate that deal, notes that people like himself who were intent on correcting market failures at home were also keen to use trade policy to do the same abroad. Their goal, he said, is "to shift the equation that has dominated discussions of trade as 'free trade' versus 'protectionism' to one of 'free trade' versus 'free and fair trade'."

In practice, this means America is most likely to strike deals with countries at a similar stage of economic development, such as the European Union and Japan, or with developing countries willing to meet rich-world standards in exchange for market access, such as Mexico and Chile. America's comprehensive free-trade deal with South Korea is the model for the TPP.

China, by contrast, has pursued a variety of bilateral deals with its neighbours, mostly in the hope of persuading them "that it sought a peaceful rise as an emerging superpower", says Chin Leng Lim, a trade-law expert at Hong Kong University. China's free-trade agreements are numerous but shallow, often leaving out sensitive sectors and subjects. Its agreement with the Association of South-East Asian Nations, for example, allows signatories to classify 400-500 tariff categories as sensitive and thus eligible for slower tariff reduction.

Regional trade liberalisation is better than no liberalisation at all, yet it interferes with globalisation in several damaging ways. By excluding sensitive sectors or imposing onerous rules of origin, it complicates life for multinational companies whose supply chains cross multiple borders.

Fonte: The Economist, London, v. 409, n. 8857, p. 12, 12 a 18 Oct. 2013.