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Business: Going Up In Flames

Cancun was just one example of faltering international talks, one symptom of decay in a leaderless global order

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The global-trade talks in Cancun, Mexico, shut down early, at precisely at 6 p.m. on Sunday, which is very odd. These kinds of negotiations almost always succeed or fail at 4 or 5 a.m. on the morning after the official deadline has expired. Trade officials emerge red-eyed to proclaim victory or defeat. But at 4 p.m. on Sept. 14, the chairman of the conference, Mexican Foreign Minister Luis Ernesto Derbez, coolly sat before ministers of more than 120 members of the World Trade Organization and proclaimed that the session was over. By 6 delegates had approved a communique closing down the talks. Before leaving town, all the key players made it clear that there had been a disaster behind closed doors. "I do not want to beat about the bush," said Pascal Lamy, chief trade negotiator for the European Union. "Cancun has failed. We would all have gained. [Now] we all lose." Robert Zoellick, the United States trade representative, scolded unnamed governments for being more interested in grandstanding than in free trade. World Trade Organization director-general Supachai Panitchpakdi expressed bitter disappointment and implored members to gather soon in Geneva to get negotiations back on track. In the months ahead much will be made of what happened at Cancun. Why did the talks fall apart, who won and who lost? There will be few clear-cut answers on the details, but odds are that a consensus will emerge on the larger importance of the failed summit. Cancun was a major setback for world trade, but it also exposes serious underlying problems in international economic cooperation, and represents just one symptom of decay in the leaderless global order.

The Cancun meeting was a halfway point for global-trade talks that were due to be completed by the end of 2004. Launched in Doha, Qatar, two months after the 9/11 attacks, the talks sent a bold signal that the world would not abandon the quest for more economic growth, despite the war on terror. They were called the Doha Development Round to signal a dramatic change in focus. While earlier rounds had addressed primarily the needs of the United States, the European Union and Japan these would focus on giving developing nations much better access to rich-country markets. That raised expectations across Asia, Latin America and Africa. When the global boom of the 1990s collapsed just before the talks began, Doha took on even greater significance as a chance to lower trade barriers and provide stimulus to a sputtering global economy.

The only real job at Cancun was to avoid outright failure. The history of other trade talks, such as the Uruguay Round in the 1990s, was that interim meetings rarely produced breakthroughs. It took eight years to finish the Uruguay negotiations, and there were so many midpoints that most officials stopped counting. At Cancun, all negotiators needed to produce was a progress report and an expression of determination to complete the talks next year.

They could have noted some successes, such as an agreement to relax Western patent protections so that poor countries could manufacture medicines to fight epidemics like AIDS. They could have identified where more work was necessary, such as opening up agricultural markets in the United States and the European Union for developing-country products. And they could have agreed to put off talks on more intractable issues, like a proposal from Europe and Japan to open discussion of new global rules for investment--an effort opposed by poor countries as a distraction from the development focus of Doha. They could have done all this, declared a modest victory and gone home. Yet they failed anyway. There was no debate about the economic stakes. Everyone had in hand an analysis by the World Bank that predicted that the elimination of barriers to manufactured goods, agricultural products and services would boost global income by more than \$500 billion. The United States was touting the importance of Cancun for its own interests, with Zoellick saying that the Uruguay Round and NAFTA had increased the average American family's income by \$1,300 to \$2,000 per year--akin to a gigantic tax cut--and that exports accounted for 27 percent of American growth over the past decade. Nor were the negotiators oblivious to the bicycle theory of trade negotiations--unless you are moving forward, you fall. And one key stumbling block was all but gone: anti-trade protesters, who had disrupted the Seattle summit in 1999, were no longer a powerful factor.

What went wrong was basic. The two economic superpowers, the United States and the European Union, still say free trade is among their highest priorities, because if they say anything else, financial markets will panic. But the fact is they don't care as much as they used to--certainly not enough to face down their powerful farm lobbies at a time of slow growth and high unemployment at home. Washington can expend real political capital on only a few critical issues at a time, and trade now comes way behind fighting terrorism, trying to contain the spread of weapons of mass destruction, reconstructing Iraq and dealing with stubborn unemployment and an out-of-control fiscal policy. In the EU, the pressures of accommodating 10 new members are the predominant concern; it will be difficult enough for France and Germany to accommodate more imports from Poland and Hungary, let alone South Korea or Mexico.

On the other hand, the major developing countries have realized that negotiating power comes with banding together. In Cancun, big emerging markets like Brazil, India, China and South Africa led a group of 22 countries to demand concessions from the developed nations before granting any of their own. This resistance is likely to last, even if the coalition does not. All of these countries have implemented many financial reforms in the past few decades, and the easiest steps, like cutting tariffs or shoring up financial-

regulatory systems, have been taken for the most part. The next ones, such as further opening up to foreign banks, insurance companies, law firms or agribusiness, are much more difficult politically.

Even the big multinational companies that once pushed so hard for trade liberalization--the Citigroups, the GEs, the Siemenses and the Nestles of the world--are preoccupied with issues other than trade now. It used to be that the CEOs of companies like American Express or Boeing were very active in pushing for free trade. Today they are focusing instead on their short-term bottom lines, or tightening up their corporate governance. International economic negotiations are fraying across the board. Exhibit A is the fragile state of currency negotiations. The United States desperately wants a weaker dollar in order to stimulate its exports, gradually slow the growth of imports and get its \$500 billion trade deficit under control. But for that to happen, other currencies must rise against the greenback. As China, Japan and other Asian countries resist, Washington is pressing them hard, even threatening to block imports in the case of China. It's been decades since we've seen such dangerous tensions in foreign-exchange markets, tensions that could spill over into a full-blown global financial crisis.

There are big problems in other areas, too. Negotiators were supposed to reach agreement by next year on new global rules to strengthen the capacity of banks to assess risk and resist financial crises. But deep differences between governments and within the banking community emerged this summer, and may scuttle the talks. Efforts to increase foreign aid are faltering, too. World Bank president James Wolfensohn reckons that while global aid flows have increased by about \$10 billion a year since then, it would take nearly 10 times that much to reach the Millennium Goals agreed at the United Nations in 2000. The quest for common international rules for accounting and auditing, so critical in the post-Enron era, is proceeding in baby steps, and could take many years even to achieve limited progress. So, too, with efforts to harmonize standards for antitrust, or to develop rules for privacy in cyberspace or to combat corruption.

There is another factor at play, too: an emerging skepticism about the nature of capitalism itself--at least as practiced and exported by the United States. Since the Enron fiasco, the depth and breadth of corporate scandals have been nothing short of breathtaking. It continued last week with the resignation of New York Stock Exchange chairman and CEO Richard Grasso, when public outrage mounted over his \$188 million pay package. In this environment, Washington has lost a good deal of whatever moral leadership it had on liberalizing trade, or easing government regulations of any kind.

There is more to this malaise than just globalization fatigue. The longstanding ties between the United States and the EU are slowly breaking down. Perhaps this was inevitable in the absence of cold-war solidarity, but differences over Iraq have widened the gaps and spilled over into economic issues. Something in particular has changed in the United States, historically the strongest force pushing for globalization. Since September 11, America has focused less on the upside and more on the risks of globalization. When Washington thinks about financial flows, it worries about money laundering and how to monitor the flows both in and out of banks. When it sees cargo entering the United States, it thinks about how to inspect what's coming in and who is

sending it. When it greets new immigrants, it worries that they will turn out to be Islamic militants.

Large parts of the American political establishment believe the United States has done more than its share for the global economy, and it's time for others to share the burden. There is more than a little truth to this. According to Morgan Stanley, 96 percent of all global growth between 1995 and 2002 is a result of the expansion of U.S. GDP. Signs of global recovery rest almost entirely on increased American demand and the ability of other countries to increase their growth by exporting to meet it. In the 1960s, '70s and '80s, whenever the United States felt overburdened, it became extraordinarily tough with its allies. It forced currency adjustments. It threatened protectionist measures. It demanded help with overseas military expenditures. It's happening again, but without the glue of the cold-war alliance, the outcome is far less certain. All of these pressures are likely to grow as the United States enters a presidential-election year, and they won't go away after the next Inauguration.

Failure in Cancun comes at a critical moment. According to the WTO, world exports grew at an average annual rate of 7 percent in the 1990s, before contracting by 4 percent in 2001 and rebounding by 4 percent last year. In the 1990s, flows of foreign direct investment rose from some \$200 billion in the early part of the decade to \$1.2 trillion in 2000. But in 2001 the value of FDI collapsed by 50 percent, and in 2002 by 25 percent more. Now that trade talks have broadened beyond tariffs and quotas to include such issues as intellectual-property rights and domestic banking or investment rules, they can have a real influence on the flow of money and ideas, not only goods. And with the world balanced on the cusp of a recovery, it can hardly afford the breakdown in Cancun. Another casualty could be the multilateral trading system and the World Trade Organization itself. The United States won't wait for the global talks to resume, but will push ahead with bilateral and regional trade agreements. Japan, China, Brazil and possibly the EU are likely to follow suit. The result could be a spaghetti bowl of overlapping deals that clog rather than open trade channels. As for the WTO, it could lose its authority not just to oversee trade negotiations but also to settle big trade disputes. In this regard, the WTO joins the U.N. Security Council, the World Bank and the International Monetary Fund as institutions that are in serious need of reform, with no good ideas on what to do, or how.

The situation is likely to get worse in the short term, and not only between the developed and developing world. The United States and the EU are threatening one another with billions of dollars in sanctions over trade barriers ranging from steel tariffs and export subsidies in America to bans on genetically modified food imports in Europe. These battles are likely to heat up.

None of this is to say that globalization is over. There is a cycle to these things. New forms of finance, technology or communication open borders, then new forms of political resistance tend to close them again. The question is where we are in the cycle, and the answer is likely that we are nearing the bottom of the trough. It could take several years to realize the promise of the Doha Development Round and perhaps a decade or two to

build a broader and stronger infrastructure for the global economy. Cancun was by no means an end, but it was a bad scene in a long-running play.

Caption:

Protesters burn a U.S. flag in Cancun

Voice of Europe: Lamy

The change since 9/11: Washington now sees cargo shipments, and worries about who's sending them

The New Fear: On the lookout for Islamic militants, Washington is more wary than ever of immigrants