How Business Can Help Free Trade

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If a tree falls in a forest and no one is around to hear it, does it make a sound? The age-old question captures the indifference many business leaders have toward the institutions and rules that form the backbone of the international trading system.

Things have changed a lot since the founding of the World Trade Organization (WTO) in 1995. Once a symbol of an inevitable march toward global free markets, today it more often serves as a reminder of how quixotic that process has become. Fatigue is spilling over to the bilateral and regional level, too, where there has been a flurry of negotiations, but fewer meaningful outcomes. Who would fault busy executives for turning their attention to other things?

Many would like to blame the current state of affairs on out-of-touch bureaucrats and short-sighted politicians. Yet the business community has responsibilities, too. Companies and their representatives need to define new priorities and effectively communicate the gains that free trade brings to consumers, workers and innovators. They need to build relationships across borders and bridge diverging national interests. Relying on governments to do the heavy lifting leads to a downward spiral where both policy-makers and the private sector stop spending political capital on what they perceive as increasingly fruitless efforts. That outcome is in nobody's interest.

So what can business do to reverse this troubling trend? What advocacy strategies will help backstop the system and bring forth the next wave of liberalization? It starts by better understanding how shifts in the global balance of power have made it harder for countries to cooperate on trade. In this new reality, national business groups should strengthen ties with their foreign counterparts and adopt a multipronged approach that targets different pressure points in an increasingly fragmented regime. Diplomacy can no longer be left to the diplomats.

The Rise and Stall of the Global Trading System

The evolution of the trading system since the early 1990s is a mixed story. There has been enormous growth in cross-border trade and investment, as companies have expanded into new markets and previously closed-off economies have plugged in to global production networks. But the treaties and institutions that underpin these flows are remarkably unchanged.

When the North American Free Trade Agreement and the WTO hit the world stage in the mid-1990s, free trade seemed like an unstoppable force. Tariffs fell to unprecedentedly low levels (at least among developed countries). New rules on nontariff barriers and services aimed to halt protectionism by other means and push liberalization into new corners of the economy.

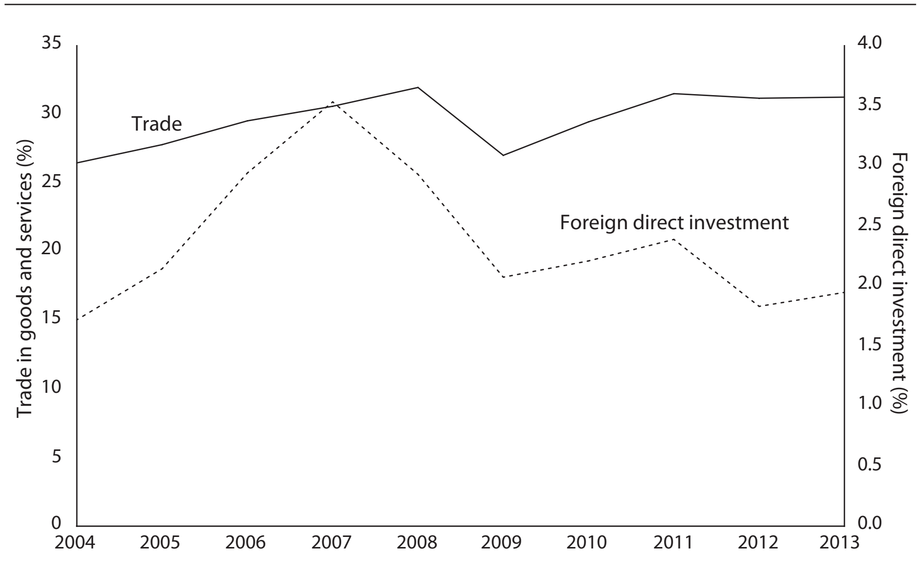
There were big gaps, however. Agriculture trade was almost untouched. There was no agreement on foreign investment. Hopes that countries would expand their commitments to liberalize services trade went unrealized. In practice, many hard-fought intellectual property protections have been worth little more than the paper on which they are written. Meanwhile, fundamental changes in the way companies do business — driven by global supply chains and the spread of the digital economy — have highlighted these gaps and revealed new ones.

More recently, the aftermath of the 2008-09 financial crisis shows that government officials can sidestep trade rules by using regulatory changes, customs procedures, state aid and other creative measures to favour domestic industries (Baldwin and Evenett 2009). Seven years into a painfully slow recovery, trade as a share of world gross domestic product is barely at its precrisis level. Foreign investment has fared much worse (see figure 1).

Attempts to plug the gaps in the trade regime have mostly failed. From the collapse of the proposed multilateral agreement on investment and Free Trade Area of the Americas to the never-ending Doha Round, business has been served with a series of disappointments.

There are, however, a few bright spots. Some countries have taken steps to liberalize on their own, as Canada did by eliminating tariffs on capital goods in the manufacturing sector. The WTO surprised many in late 2013 when members endorsed a package of measures at the Bali Ministerial Conference, including a treaty on trade facilitation that could cut global trade costs by up to 10 percent (Moïsé, Orliac and Minor 2011). Sector talks in Geneva on services and environmental goods are off to a

Figure 1
International trade and investment as a share of world GDP, 2004-13



Source: The United Nations Conference on Trade and Development.

good start. And despite the rise of beggar-thy-neighbour policies during the recession, they pale in comparison to the harsh protectionism of the 1930s (Drezner 2012).

Another positive sign is that advanced economies have started to negotiate agreements among themselves. The European Union has an agreement with Canada, and it is in talks with the US and Japan. And although the recently announced Trans-Pacific Partnership (TPP) includes 12 countries, what matters most right now is that it connects Japan with North America. The success of these initiatives is far from assured, however, and similarly ambitious agreements with the BRIC countries (Brazil, Russia, India and China) are a long way away.

The Paradox of Globalization

In many ways, trade liberalization has been a victim of its own success (Beatty and Vidler 2014). Access to rich-world consumers gave emerging economies markets in which to sell their wares. Leading multinationals set up shop, bringing with them much-needed capital and technology. Local firms learned from them

and upgraded their abilities. Economic growth accelerated, pulling hundreds of millions out of poverty in the process. This is how globalization was supposed to work.

But the rise of new trade centres — combined with the fallout from the financial crisis, which disproportionately hit rich countries — has had a profound effect on the distribution of economic clout. The BRICs now account for more than a quarter of global output. Add Mexico, Turkey, Indonesia, South Korea and South Africa, and they come close to the total output of the G7 economies.

This new configuration is a challenge for international cooperation. The days when the United States, the EU, Japan and Canada (known as the Quad) could sit down and agree on what to do, with the rest of the world falling into line, are over. New access to these markets does not mean what it used to. Their tariffs are already low by world standards, and growing South-South trade means there are other options out there. The economic significance of China, for example, makes it easier for Russia to weather Western sanctions.

Another problem is that the BRICs et al. have been cautious to embrace markets. Although willing to take advantage of export opportunities, they are less interested in undertaking domestic reforms that would put foreign companies on an even footing. The state continues to play a central role in the economy: more than half of the top companies in China and India are owned by the government (Kowalski et al. 2013). Underdeveloped social programs mean price controls and subsidies are often the easiest way to meet the needs of vulnerable citizens. In this context, building consensus on trade rules that go beyond traditional tariff cuts is not easy.

It is not just the emerging markets that are making it hard to find common ground. Advanced economies might understand one another when it comes to the balance of state and market, but today's "next generation" trade issues are harder for them to handle. Tariffs are quite obviously intended to protect domestic industry. Regulatory discrepancies are motivated, at least in principle, by the pursuit of legitimate public policy objectives (Goff 2014). Removing these barriers requires the involvement of numerous government agencies and is more likely to provoke opposition from civil society.

Thankfully, the tensions we see today have so far only slowed down liberalization. A wholesale reversal, as the world experienced during the interwar period (another time of great economic and geopolitical change) seems unlikely. Nonetheless, free traders need to stay vigilant.

A Leadership Role for Business

What lessons should the business community draw for the future? First, there is no big-bang solution for freer global trade. Business should not give up on the multilateral system, but it cannot afford to put all its eggs in the WTO basket. Regional trade agreements are here to stay. There is also much that can be done outside traditional trade negotiations, in forums such as the G20 and in national capitals around the world. Business needs to work incrementally at all levels.

Second, inclusiveness matters. The rise of new trade powers means that industry groups in member countries of the Organisation for Economic Co-operation and Development have to forge partnerships with their counterparts in these markets, and work with them to build a common vision.

Third, trade will not be addressed in isolation. Business has to ensure that policies affecting trade — in the areas of energy, climate change, product safety and privacy, for instance — are effective and better coordinated. Half-measures or fragmented approaches will only engender public opposition, put companies at a competitive disadvantage and ultimately sap the will of countries to open up.

Having the private sector play a more prominent role in global governance is not a new idea. During the interwar period, a group of industrialists, financiers and traders formed the International Chamber of Commerce (ICC), calling themselves "merchants of peace." At a time when international leadership was scarce, they developed rules to govern private commerce and encouraged governments to keep their markets open. Unfortunately, it was not enough to counter the pressures of the time. When the Great Depression hit, the mercantilism of the past came back full force.

Once again, the international business community needs to lead. The good news is that this time the community is bigger and more tightly knit. Business leaders regularly gather on the sidelines of annual summits like the G20, G7 and APEC to build relationships and develop common agendas. The ICC has been joined by other groups like the World Economic Forum and the B20 Coalition (the latter is a network formed in 2013 by over a dozen national business federations from five continents; the Canadian Chamber of Commerce is the founding chair). Through better communication, coordination and monitoring at the multilateral, regional and national levels, these groups can push trade liberalization in a mutually reinforcing way.

Thanks in part to such efforts, we are starting to see progress. Within weeks of last year's G20 meetings in Brisbane, the WTO adopted the trade facilitation agreement — the first multilateral trade deal in over 20 years. Countries are working tirelessly in Geneva to "recalibrate" the Doha agenda in the hope of concluding a modest deal that would clean the slate for future talks. With the Trans-Pacific Partnership negotiations now finished, the conversation is shifting to how Indonesia, the Philippines, Taiwan, and even China and India might join. It is too early to say what all this will amount to, but there are good reasons to be optimistic.

Conclusion

RESTORING POSITIVE MOMENTUM TO THE GLOBAL TRADING SYSTEM IS AN UPHILL BATTLE, and everyone needs to pull up their sleeves. For Canada especially — a middle economy highly exposed to cracks in the trading system — indifference is not an option. By developing a common vision and practising the art of the possible, industry groups around the world can and should guide governments through these complex and difficult times and toward a more open world economy, where companies compete and innovate on a level playing field. The alternative, if history is any guide, is not where we want to end up.

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