

The muddled case for trade agreements

By Dani Rodrik

June 11, 2015 – *Project Syndicate*

With global trade negotiations deadlocked for years, regional agreements – long a dormant route to trade liberalization – are back with a vengeance. The United States is at the center of two mega-deals that could shape the future path of world trade.

The Trans-Pacific Partnership (TPP) is further along, and involves 11 countries, besides the US, that collectively produce as much as 40% of global output; but China, crucially, is not among them. The Transatlantic Trade and Investment Partnership (TTIP) with the European Union has an even more ambitious reach, promising to join two giant regions that together account for half of world trade.

Trade agreements have long stopped being the province of experts and technocrats. So it is not surprising that both initiatives have generated significant and heated public discussion. The perspectives of proponents and opponents are so polarized that it is hard not to be utterly confused about the likely consequences. To appreciate what is at stake, we have to understand that these deals are motivated by a mix of objectives – some benign, others less so from a global perspective.

On the economic front, the trade agreements' defenders tend to talk with both sides of their mouth. Reducing trade barriers is said to promote economic efficiency and specialization; but it is also supposed to increase exports and create jobs by increasing access to trade partners' markets. The first of these is the conventional comparative-advantage argument for trade liberalization; the second is a mercantilist argument.

The goals advanced by these arguments are mutually contradictory. From the standpoint of comparative advantage, gains from trade arise from imports; exports are what a country has to

give up in order to afford them. These gains accrue to all countries, as long as trade expands in a balanced fashion. Trade agreements do not create jobs; they simply reallocate them across industries.

In the mercantilist worldview, by contrast, exports are good and imports are bad. Countries that expand their net exports gain; all others lose. Trade agreements can create jobs, but only to the extent that they destroy jobs in other countries.

Either argument for trade agreements is thus inconsistent with their advocates' key claim that such deals will simultaneously create jobs and be mutually beneficial. Strangely, supporters of the TPP and TTIP simultaneously rely on both arguments.

On the political front, proponents argue that TPP and TTIP will enshrine good, liberal rules for world trade. Lower barriers and greater transparency in regulation are generally good things. But here, too, the reality is much more complex.

For the US, a great attraction of the TPP is that it will enforce tighter intellectual-property rules on other countries. Such rules tend to have an uncertain impact on innovation while generating substantial rents for US patent and copyright holders.

In the TTIP, the reduction of so-called non-tariff barriers to trade between the US and Europe will almost certainly restrict the space for domestic regulatory action. Even if regulatory harmonization does not create a race to the bottom, the interests of investors and exporters will cast a longer shadow than before over social and environmental goals.

Perhaps most worrisome are the Investor-State Dispute Settlement (ISDS) provisions of the

two agreements. These provisions establish a separate judicial track, outside a country's own legal system, that allows firms to sue governments for apparent violations under trade treaties. Proponents defend ISDS by saying that it will not have much consequence for countries, such as the US, where there is good rule of law, and that it will promote investment in countries, such as Vietnam, where there is not. In that case, it is unclear why ISDS provisions are needed for the TTIP, which covers the advanced economies of North America and Europe.

In all of these areas, the TPP and TTIP seem to be about corporate capture, not liberalism.

One of the most important, and equally ambiguous, objectives of these agreements relates to a subject that will not make any appearance in the texts: China. Both the US and Europe would like China to play the trade game by their rules. Negotiating these rules without China's participation can be viewed as part of a strategy aimed at eventually coaxing China into a liberal global system. But this approach can also be considered a way to isolate China and erect discriminating barriers against it in lucrative markets.

Finally, what especially grates on the agreements' critics is the secrecy of the negotiations. The draft texts are not open to public scrutiny, and the few outsiders who are allowed access to them are prohibited from divulging the contents. The stated goal of this policy is to facilitate negotiations. But, as US Senator Elizabeth Warren has put it, this gets it exactly backwards: If transparency would make it harder to sell the final product to the public, it raises serious questions about the desirability of what is being negotiated.

It does make sense to subject the final text to an up-or-down legislative vote without allowing amendments. But this can be done while making draft texts public. The time for secrecy is past, if it ever existed.

In the end, there is much uncertainty about these trade agreements' economic and political consequences, and considerable room for concern. Proponents only discredit themselves by deriding the skeptics as protectionists. Open, informed debate about specific provisions is exactly what is called for. And that is possible only if the negotiating texts are opened to public scrutiny.

Dani Rodrik is Professor of Social Science at the Institute for Advanced Study, Princeton, New Jersey.