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COLLAPSE OF WTO'S DOHA TRADE TALKS PRESENTS OPPORTUNITY TO CREATE NEW TRADE PARADIGM, LEVY SCHOLAR SAYS

Trade Policy Must Put Emphasis on Labor and Environmental Standards, Exchange Rate Rules, and Domestic Demand-Led Development

ANNANDALE-ON-HUDSON, N.Y.—In July 2006, the Doha Development Round of World Trade Organization (WTO) negotiations failed, marking the first full-blown collapse of a multilateral trade negotiating round since World War II. A new study from The Levy Economics Institute of Bard College argues that this collapse has created a significant opportunity to reposition the global trade debate. In a new public policy brief, *Globalization and the Changing Trade Debate: Suggestions for a New Agenda*, Levy Research Associate Thomas I. Palley contends that the failure of the Doha round signals the need for the creation of a 21st-century trade agenda that moves away from the traditional focus on trade liberalization to address questions of how to govern globalization. Specifically, Palley suggests that future trade talks must center on enhancing labor and environmental standards, establishing global exchange rate policy, and cultivating domestic demand-led development.

As part of the effort to redefine the global trade debate, Palley argues that it is critical to expose the failings of the neoliberal model of economic development that underlies the current WTO paradigm. Palley contends that, overall, WTO-style liberalizations have produced relatively small global economic gains, and the gains have accrued to the developed country bloc, leaving many places in the southern hemisphere, such as Latin America, to grow more slowly. According to Palley, two of the central flaws of recent trade policy are that it ignores the increasing importance of exchange rate policy and has focused on boosting the supply side, at the expense of encouraging demand.

By emphasizing international trade and growing the supply side, trade policies over the past 20 years have, Palley asserts, neglected the development of domestic demand, which has both slowed growth and made it more unequal between developed and developing countries. "The focus on international competitiveness has encouraged holding down costs and, therefore, wages, and this focus has encouraged retrograde competition and contributed to

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destabilizing deflationary conditions in the global economy," he writes. "Countries have added to global supply through export-led growth without similarly adding to global demand." Palley argues that improving labor standards is critical to fostering a demand-led model of development, since labor standards help workers bargain for a fair share of productivity and are critical to establishing a floor for the global economy. "Developing the demand side leads to a more inclusive agenda, as wage income becomes a critical source of demand," he states. "Linking wages to productivity can then promote a virtuous circle of inclusive development. Higher productivity drives higher wages, which in turn increase demand to absorb the increase in productivity. At the same time, robust demand conditions encourage producers to invest, further raising productivity and advancing development."

Furthermore, Palley says, current trade policies ignore the increasing and central importance of exchange rates. The lack of a coordinated policy linking trade and global exchange rates has had both significant short-run effects on trade patterns and long-run effects by influencing the location of industries. These influences have become larger and more significant in the era of globalization, because economies are more open and production is more mobile. Palley suggests that one of the most glaring examples of this shortcoming in trade policy is the United States' trade deficit with China, which has been pursuing a policy of export-led growth that relies on an undervalued exchange rate. "The result has been a tidal wave of imports from China into the United States, closure of U.S. manufacturing plants that compete with Chinese goods, and the relocation of production and new investment to China," Palley writes, stressing that the current situation is unsustainable and could potentially generate a trade war.

Recognizing that reframing the global trade agenda will likely take time and be contentions, Palley recommends taking on small-scale, targeted multilateral trade liberalization that advances development in the southern hemisphere while producing benefits in the northern hemisphere. One suggestion he offers is a tropical products trade round involving commodities such as sugar, cotton, coffee, cocoa, rice, and orange juice. "Such a trade round could focus on those commodities that are most beneficial to developing countries and those (northern) subsidies that are most damaging," Palley writes. "Trade predicated upon the theory of comparative advantage still holds for these commodities, and there are trade gains to be had by all sides."

To conclude, Palley asserts that trade is now firmly connected to globalization, and trade and globalization are viewed as significantly responsible for wage stagnation, widening income inequality, and increased job insecurity. "Public disenchantment with globalization and existing trade policy points to the need for a new policy paradigm that addresses the economic realities of trade and globalization," he writes. "An alternative paradigm, with its emphasis on labor and environmental standards, rules for exchange rates, and domestic demand-led development, is now clear to see."

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Public Policy Brief No. 91: *Globalization and the Changing Trade Debate: Suggestions for a New Agenda*

(10.19.07)