Free Trade in Trouble Public skepticism over benefits of trade feeds protectionist sentiments

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Asia will experience the most robust trade growth

In the middle of November, U.S. Commerce Secretary Carlos Gutierrez led a bipartisan congressional delegation to Colombia to show the lawmakers how much Columbia has done to address issues that have kept U.S. legislators from approving.

“Colombia is making tremendous progress. (Anti-union) violence is down, unemployment is down, inflation is down and investment and opportunity is up,” Gutierrez said on the eve of his departure.

It was Gutierrez’s third such visit in as many months and the fourth led by a senior Bush administration official. Just two weeks earlier, U.S. Trade Representative Susan Schwab headed a similar delegation to Colombia. Her trip followed a visit to Capitol Hill in October by Colombia Vice President Francisco Santos and an appearance the same month in Miami by President Bush.

The blitz on Congress by officials of both countries shows how free trade is in serious trouble and will continue to be so in the year ahead, according to trade experts. That trouble, along with fears of an economic recession in the U.S., a weakening U.S. dollar, the growing clout of China and India and shifting patterns in ocean shipping are part of an emerging tableau in global trade, they say.

Under siegeCommenting on President Bush’s October visit to Miami, where he addressed the Greater Miami Chamber of Commerce, Jerry Haar, professor of management and international business at Florida International University, said: “(The president’s visit) focused on one of the strongest pillars of our local economy — international trade, particularly that with our hemisphere neighbors. The timing of his visit and the urgency of his plea are clear indicators that free trade is under siege — not only here in the U.S. but throughout the Americas.”

The Latin American public is skeptical of — in some instances outright opposed to — free trade, regarding it as part of a reform agenda that has not delivered the benefits promised, Haar said. That, plus “a U.S. public vulnerable to the simple messages of political and media populists and feeling that their living standards have not improved and their jobs may be threatened by more trade accords, have emboldened anti-trade politicians throughout the hemisphere,” he said.

The Bush administration is pressing ahead with bilateral and regional free-trade arrangements as the World Trade Organization’s Doha Round of market-opening talks remain stalemated. In addition to the Colombia FTA, agreements with Panama and South Korea are struggling for approval in Congress.

The House narrowly passed a U.S.-Peru Free Trade Agreement in November, but did so only after extracting major labor and environmental concessions from Peru. Its fate now rests with the Senate.

The Panama FTA may well squeak through, Haar said, but chances of an accord with Colombia are far less certain. Prospects for the South Korea agreement are even dimmer because of a perception that it does not provide enough access to the Korean market, while giving Korean companies greater access to the U.S. market.

Congress will resume deliberations on all the FTAs when it reconvenes in February.

Dollar daysAnti-free-trade sentiment will hardly stop the growth in world trade, however. The World Bank predicts global trade in goods and services could rise more than threefold to $27 trillion in 2030 and trade as a share of the global economy will rise from one-quarter today to more than one-third. Roughly half of the increase is likely to come from developing countries, according to the bank.

With the weak dollar making U.S. goods cheaper for overseas buyers, the U.S. is poised to benefit from that growth, free trade or not.

“The weak U.S. dollar will cause people to readjust their sourcing and business strategies. Sellers who depend on (the U.S.) market will not be able to sell as much. Those currencies that are stronger will buy more. That bodes well for U.S. exports,” said Thomas G. Travis, managing partner at Sandler, Travis & Rosenberg P.A., a customs and international trade law firm, and chairman of Sandler & Travis Trade Advisory Services.The weak dollar already has pushed U.S. exports to all-time highs, boosting prospects for shrinking the country’s trade deficit, which last year exceeded $800 billion. The U.S. trade deficit decreased to $56.5 billion in September from $56.8 billion in August, as exports increased more than imports. Exports increased to $140.1 billion in September from $138.6 billion in August. Exports of goods were $100.2 billion in September, up from $99 billion in August.

For the first nine months of the year, exports of goods grew 11.4 percent to $851 billion, compared with $764 billion in the same period last year, according to the Census Bureau, while imports increased only 0.4 percent. Lower growth in imports resulted in a reduction in the deficit in the first nine months of 2007, to $583 billion from $620 billion in the same period last year. However, the trade gap may expand during the rest of this year as a result of skyrocketing oil prices.

“Further dollar depreciation is expected so exports will improve. The dollar will see steady declines through 2008 due to huge current account deficits,” said Robert West, managing director of maritime global trade and transportation at Global Insight Inc., Lexington, Mass., providers of economic and financial analysis, forecasting and market intelligence.

Michael Andrews, chief economist for PIERS Global Intelligence Solutions, a sister company of Shipping Digest, said other factors expected to contribute to the further weakening of the dollar next year include the likelihood of reduced capital inflows in the wake of the subprime mortgage bust and the prospect of additional interest rate reductions by the Federal Reserve Bank.