

EDITORIAL

Washington's big opportunity on securing historic trade deals in 2015

IF one wishes to see in the new year more initiatives to liberalise global trade, then 2015 is looking good. Indeed, when it comes to trade policies, the political stars are being aligned in Washington.

In the White House sits a centrist Democratic President committed to the principles of free trade who has pledged to conclude two gigantic global trade deals – the Trans Pacific Partnership (TPP) with 12 Pacific nations, and the Transatlantic Trade and Investment Partnership (TTIP) with the European Union (EU) – perhaps as early as this year.

At the same time, the Republicans are going to take control of both the House of Representatives and the Senate this month, and their pro-business leaders insist that they plan to enact legislation that promotes free trade, including the TPP and the TTIP that are now in the last stages of negotiations between the United States and its trade partners.

While the congressional Republicans have been trying relentlessly to block President Barack Obama's domestic and foreign policy initiatives in the past six years, the main political obstacle to advancing the White House's ambitious trade policy agenda has been the Democrats on Capitol Hill led by the party's so-called progressive wing. In fact, the financial crisis and the ensuing Great Recession have created an environment that seemed to be conducive to winning public support for the anti-globalisation rhetoric favoured by progressive Democrats and their allies in the labour unions. Their mantra that has been embraced by a large number of congressional Democrats is that trade deals such as the TPP and the TTIP reward Corporate America but hurt American workers whose jobs are being sent to China and other emerging economies.

These anti-trade liberalisation sentiments among the Democrats explain why the majority of congressional Democrats and their leaders have opposed granting Mr Obama the so-called trade promotion authority (TPA) aka "Fast Track" that allows the White House to negotiate and conclude trade deals and then bring them before Congress for an "up" and "down" vote, ensuring that lawmakers aren't able to force changes in the language of the accords.

Republican leaders have suggested that they could muster enough Republican votes in both houses of Congress to win approval of a TPA. But while they enjoy strong support from the business allies for such a move, many Republicans, especially members of the Tea-Party wing, are expected to resist providing more power to the much reviled Mr Obama.

On his part, Mr Obama has been reluctant until now to pick a political fight with his Democratic allies over trade policy and has refrained from taking a strong public stand on the issue and hasn't quite gone out to promote the TPA and the TTIP with the kind of enthusiasm that he projected when advancing his healthcare insurance reform plan.

So both Mr Obama and the Congressional Republicans have an opportunity to show leadership and work together in getting these two historic trade deals approved and make 2015 a good year for free trade.



The structural sources of America's power ensures that it can bounce back from devastating economic crises and costly military interventions. PHOTO: AFP

Thesis on America's decline not panning out

'Declinists' have preached the end of US global leadership twice in 30 years. But don't bet against the US. The roots of its power are structural, cultural and geographical. BY LEON HADAR

SOME BT readers may not be old enough to remember a time when the conventional wisdom among the experts was that Japan would overtake America sooner or later. Indeed, in the immediate aftermath of the Cold War and a few years before the American economic boom of the 1990s, before the bulls would run in Wall Street and before Silicon Valley would become the wonder of the world, lawmakers in Washington and leading pundits were predicting that the super-charged Japanese economy of the time would eclipse the then-waning American one.

Historian Paul Kennedy argued in his book *The Rise and Fall of The Great Powers* that, not unlike other great powers in the past, the American economy would be bankrupted by its military spending, while Japan and Europe would be zooming ahead. In *The Coming War with Japan*, strategic analyst George Friedman predicted that Japan would translate its economic power into military might and would be able to beat the United States in a military confrontation. And with the media highlighting reports about Japanese investors buying real estate in Manhattan and Sony Corporation's acquisition of Columbia Pictures in 1989, novelist Michael Crichton painted in his novel *Rising Sun* a nightmare scenario under which Japan Inc was taking over the United States. There was no doubt about it. We were entering the new Japanese Century.

These and similar "the-Japanese-are-coming" forecasts piled on political pressure in Washington to reduce American defence spending and its global military outreach and to embrace less free-market oriented economic policies and a more protectionist trade strategy.

But the Japanese did not take over the American economy and have instead entered a period of economic stagnation; it has become an aging society and developed an uncertain geo-strategic position. President Bill Clinton, resisting pressure from the isolationists and the protectionists, unleashed the forces of the free market and liberalised trade policies, with the United States emerging as an unchallenged global military and economic power in the 1990s. The prophets of American doom proved to be wrong.

One should never bet against America, contended the critics of the declinist thesis. But then in the aftermath of the 2008 financial crisis and the ensuing Great Recession that was coupled with American military fiascos in Iraq and Afghanistan, there was a sense of déjà vu all over again in the air, as once again American politicians and experts were warning that America

was in decline. The Anglo-American model of capitalism and its policy by-product, the Washington Consensus, were dead. The Unipolar Moment was over, and the United States wasn't able to determine geo-strategic outcomes anymore. The American political system wasn't working and social and economic divisions plagued its society. And China and the other emerging economies were on the way up. Bye, Bye, America. Hello, the new Chinese (or Pacific) Century.

Like in the 1990s, the more recent revival of the "America-is-in-decline" thesis through numerous articles and books relied on a mix of statistical and anecdotal evidence. Not unlike the Japanese economy in the 1990s, the American economy seemed to be heading toward a period of low growth and stagnation. Unemployment was up, the trade deficit was expanding, and the political deadlock in Washington made it impossible to put the American fiscal house in order. Add to the depressing picture the country's crumbling infrastructure, aging population, ailing public education system and rising rates of poverty, and it looked as though the American Dream was over.

At the same time, the geo-strategic challenges facing the United States were clearly evident in the Middle East, where Washington seemed to be losing its pre-eminent position, while both Russia and China were in a position to resist its diplomatic and military pressure. The American public was expressing growing opposition to an activist US military role abroad and America's global trade policy was not being advanced.

All true. But if you had made too many bets against America in recent years, you may soon find yourself on the losing side. Or at least that is emerging to be the new conventional wisdom, as the declinists seem to be in retreat in the face of many indications that America is back in business.

First, no one would deny that America continued to get out of recession faster than Japan and the European Union. The American economy grew last year by 2.6 per cent and is expected to grow by at least 3 per cent this year; economic growth in the Japanese and the European economies remain at around 1 per cent.

The US unemployment rate has continued to fall and is now around 5.8 per cent, less than half of the jobless rate in Europe. That development, coupled with signs of improvement in many segments of the American economy – a booming stock market, rising tax revenues, a strong dollar – is probably going to lead policymakers in the US Federal Reserve to start raising interest rates and normalise US monetary policy. These are all very impressive achievements, especially if one considers all the doom-gloom-

predictions by declinists, notably on the political right about the imminent collapse of the American economy to be driven supposedly by government spending and the Fed's "easy money" that would result in hyperinflation and the debasing of the American currency.

It would be a mistake to attribute the signs of improvement in the American economy entirely to the policies of the Obama administration or the Fed. The ultimate sources of American power are more structural, and include, as strategic thinker Walter Russell Mead put it, "the economic dynamism of its culture, the pro-business tilt of its political system, its secure geographical location, its rich natural resource base and its profound constitutional stability". That, together with the continuing flow of millions of new immigrants into the country, ensures that the United States can bounce back from devastating economic crises and costly military interventions. (It sounds bizarre today, but there was a time when many western observers believed that the Soviet Union and its communist ideology were the "wave of the future" and that America and its liberal-democratic traditions were passé.)

SINO-AMERICAN CENTURY?

Moreover, the fracking boom that is expected to make the United States a leading energy exporter in the near future and the dramatic fall in global energy prices are bound to energise the American economy and increase US diplomatic leverage vis-à-vis friends and foes alike.

Yet in contrast to the American economic recovery and boom of the 1990s, the current revival is probably going to be less impressive. The American economy may be doing better than the Japanese and European economy, but the Chinese economy would continue to surge ahead relative to the American one. The Sino-American Century?

There is also no doubt that, unlike the period that followed the end of the Cold War, when American power reigned supreme, Washington would now have to share power with other leading global players, although none of them would be able to challenge US military status anytime soon.

There is also another major difference between the economic recovery and growth of the 1990s and the current one. In the 1990s, the economic boom helped create new jobs and bring more prosperity to the entire American middle class; now, there is a sense that most Americans are not benefiting from the economic growth and that the only ones who are being rewarded are the super-rich.

America may not be declining, but many of its citizens seem to feel that way.

THE BUSINESS TIMES

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THE BOTTOM LINE

Working hard, but working poor, in developing countries

By Gary Fields

THE last 25 years of economic growth in the developing countries have produced a spectacular reduction in the percentage of the world's people living in extreme poverty. Fifty-two per cent of people in developing countries were in extreme poverty at the start of the 1980s; the rate has fallen to 22 per cent today. In China alone, rapid economic growth resulted in a drop in poverty of 500 million people.

Despite this welcome progress, much more needs to be done. Many people in the Western world assume that solving the problem of poverty in the developing world primarily requires the creation of more jobs. That is not the case – or at least not the main issue. The developing world has plenty of jobs. The world's working poor need better jobs. The reason for this is straightforward. In the absence of any meaningful social welfare systems, workers in the poorer countries simply must work. If no one else will hire them, of necessity they create their own earning opportunities, typically in very low-paying self-employment.

For this reason, the unemployment rates in developing countries are lower than those in

the developed countries. In the world's developing countries, the number of unemployed is over 150 million – accounting for about four of every five unemployed workers worldwide.

Meanwhile, the advanced economies account for only about 15 per cent of the world population, but have 22 per cent of global joblessness. The richer countries thus have a much greater share of unemployment globally than their share of population would suggest.

For workers in developing countries, there are three big issues to tackle: First and foremost, the poor work long hours, but earn so little per hour that they are unable to move above the poverty line. Second, women face particular disadvantages in the labour market. And third, too many workers are forced into what can only be regarded as indecent work, such as modern-day slavery, indentured servitude, and child prostitution.

What is to be done? At first blush, it seems very encouraging that nine of every 10 workers in the developing countries work in the private sector. While some of these are wage and salary workers who have regular contracts and enjoy social protections, most are not. The large majority of these workers do not benefit from any kind of job protection or social pro-

grammes.

In a global context, it is therefore important to de-mystify the role and character of the private sector. Private companies will make their decisions based on what is in their profit-maximising interest to do. It is on that basis that they decide whether or not to invest in a given country, hire more workers there or not, pay them well or not, train them or not, adopt "high road" human resource practices or not.

If this is right, then improved labour market outcomes may be a by-product of profit-seeking on the part of firms, but it is not realistic for improved labour market outcomes to be seen as a goal of private-sector employers – at least not yet. Public policies on the part of national governments and international organisations as well as non-governmental organisations (NGOs) and consumer movements, need to be formulated in view of this reality.

Developing countries need resources to create and sustain new social programmes (or expand existing ones), as well as to prepare people for better employment. Since most employment in developing economies is self-employment, their governments and these governments' international partners must see to it that they give workers the tools to raise

their productivity. This means, first and foremost, more skills and education, but also includes other programmes such as providing farmers with cheap but effective irrigation equipment so that they can raise their crop yields. More open trade, if carefully managed, can also bring about better employment outcomes and thereby reduce poverty.

However, given private companies' presumed profit orientation, they cannot be expected to stand up for workers' best interests. That is why, in the context of the current debate over trade agreements such as the Trans-Pacific Partnership, the codification of worker protections in international agreements is a critical factor.

How to get there? The involvement of governments, NGOs, unions, and concerned global citizens are critical. Public pressure will remain one of the most potent forces to induce private companies to undertake pro-worker actions and reforms.

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