

# Is the 21st Century a Century of the Free Trade Agreement?

Bih-jaw Lin, Vice-president and professor, National Chengchi University



**Figure: Vice-president Bih-jaw Lin presented this paper in the international conference on “ASEAN integration under the global political and economic trends” on Sep. 7th, 2012.**

## 1. INTRODUCTION

Regional Trade Agreement (RTA) or Free Trade Agreement (FTA) has become an important area of study and one of the top priority policy issues for almost every country. The United States has taken positive measures to strengthen its bilateral FTA with countries in this part of the world, notably among them are Singapore and South Korea. China, Japan and Australia together with many countries follow up and their policy initiatives have met with positive responses from their counterparts. The basic reasons for increasing FTA vary, but most countries treasure the FTA mainly because of political and economic considerations. The private sectors are even more supportive of these initiatives, as Asia and the Pacific are moving into the digital age and there are more and more trading opportunities for them to explore. Indeed, trade has been quickly transferred from low politics into high politics. The subject of

international political economy (IPE) has attracted more talents to develop their academic and professional career. The journals of International Organization and Review of International Political Economy provide the required intellectual food of thought for us to cultivate this new frontier of knowledge.

## 2. TRADE GROWS UP NATURALLY

There is no need to exaggerate the importance of trade in international and domestic affairs, or even the daily life of every citizen. Domestic trade is closely related to economic development and international trade can not be separated from economic development of every nation, big and small alike. For too long, trade has been regarded as a venture of every individual and not a domain of public affairs. In the history of China, we can easily notice a long tradition of neglect of commerce in the thinking of both the government and the intellectuals. The imperial court even prohibited international trade as a means to protect its internal stability and security. The private sector, however, took creative and innovative measures to continue trade with the outside world, making the silk road at sea a reality.

The economic history of the western world has a totally different track. The historical background of the Hanseatic League does not need any introduction to this group of experts. Britain, Holland, Portugal, Spain, France, Germany and Italy all became the main trading states and led the age of great geographic discovery. The Arabs once dominated the

trading world, but then gradually lost their edge. The arrival of the industrial revolution and the creation of the world market together with the capitalist system have made Europe and then the United States, the centers of gravity.

Adam Smith's "the Wealth of Nations" was published in 1776. Before the publication of this extraordinary treatise, the study of economics hardly existed for scholars and even students in the university in Italy and other parts of Europe. Despite all of these, trade was very popular and common and so were guilds and the professional associations. The industrial revolution facilitated trade and the expansion of imperialism pushed it even further and faster. Traders followed the flag and the formation of the British, French and Deutsch East Indian Companies to run their newly occupied colonies did not surprise any historians at all. China has never implemented this type of the delegated governance in its long political and economic history. For too long, the Chinese have always believed that trade belongs to the private sectors and the intellectuals should remain in their own world of learning or join the bureaucracy to serve the government. Now, it has been changed in both sides of the strait.

Few will quarrel with me that trade now dominates our every day's life. It is one of the major activities that leads any society to develop and evolve. Our sociological friends even invented the terms of "the market society" or "the trust society" or "the post-industrial society" to explain these trends. We do not need to read the classics of Fernand Baudel or Immanuel Wallerstein to understand all of these phenomena. In fact, it is a result of historical development. How many successful navigators realized their life-time ambitions of discovering the world and become the empire-builders? You know it better than I do. Without trade, there will be no

colonial empires, human progress and, indeed, the world civilization. What is even more true, if there is no stock market, what a boring world for us to live in?

### **3. WHAT DOES THE IPE MEAN TO US?**

Experts in this great institute and all the distinguished guests here understand that the IPE came to our attention very late, although in early days, European studied and taught the subject of political economy. It was the day when the concept of mercantilism worked so effectively and therefore the ruling elites relied on its guidance. Politics and economics later were separated in the academic community. There has been a very long time of mutual neglect between international relations and international economics, as Susan Strange explains so well. It is a painfully slow process for the two academic communities to see the need to combine the two together and actually do it with vigor and patience. The American Association of the IPE was eventually founded in 2006.

The IPE is both a discipline and a profession. In essence, we want to know how the state influences, shapes, guides, regulates or even controls the market and vice versa. As the cold war ends and there is less and less possibility of war or military conflicts between the major powers, the priority of trade and economics has been quickly uplifted in most of the industrial democracies and even in China and Russia. No wonder, too many of our colleagues in Taiwan and other countries have argued that international relations hardly exist, only international security and the IPE actually count. For this and many other reasons, the IPE has become a career track for many of our young and perspective professionals to embark upon. For those who participate in this conference and have not drawn up your road map of career,

allow me to say: "welcome on board".

The discipline itself is very young, but its intellectual base is deep and solid, because political science, economics, international relations and international economics form the background knowledge.

It fits nicely with the basic requirements of being scientifically sound and socially relevant. The traditional study of diplomacy has been quietly absorbed and the rich knowledge of political sciences and economics has put us in a very advantageous position to learn and, moreover, to practice.

I will not bother you with too much of details. Some of my colleagues probably have heard the debate between the American and the British Schools of the IPE. The American School is firmly based on foreign policy and international relations and emphasizes the need of pursuing an interdisciplinary approach, while the British School leans toward history, economics, sociology and politics as the base of the IPE and, therefore, emphasize the need of engaging a multidisciplinary approach. The Americans tend to be empirical and the British follow their normative tradition carefully.

The social science has a very long tradition of diversity and we welcome different views, perspectives and theories. The attraction of the IPE and indeed its practical value lie in its relevance to the policy issues that affects the welfare of almost every country in this world. There is no point to read too much into the debate between the American and the British Schools.

The fundamental questions for any serious thinkers and responsible policy makers remain almost the same, that is, how to determine state-state, state-market, state-society, state-firm and firm-firm relations. When every country finds its need to

negotiate and sign a FTA with its counterpart, it needs to consider all these factors. One can easily understand why a trade agreement will dominate the public debate so quickly and then become so complicated, simply because it involves too many public and civilian groups, not to mention the most powerful electorate in any democracy. When there is a strategic imperative and a national consensus to support the government, the trade negotiations will be smooth and, sometimes, simply rituals for the officials to do their jobs.

#### **4. TRADE POLICY IS FOREIGN POLICY**

Both the American and the British Schools argue that the IPE has transformed trade policy into foreign policy, because almost every trade negotiation affects national interest, no matter how we define it. As the private sectors, the market society and the information society or the post-industrial society have all become the real form of social interactions in most of the industrial democracies and the emerging economies, the margin between politics and economics is very narrow indeed, sometime hardly discernible. The roles of the multinationals in terms of the technology transfer, the capital accumulation, the promotion of exports and the creation of job opportunities are impossible to ignore. No country in this world will or can afford to lose any opportunity of substantive inflow of foreign investment. It has become a common practice for any government to work closely with the private sectors to make their country conducive and friendly to foreign investors. How many countries have combined trade and foreign affairs to form just one ministry or plan to do so in the future? If there is no single government agency to deal with the matter, other mechanism has worked effectively to take care of both.

Enough ink has poured in to show us that

numerous trade or economic instruments can be applied to achieve the country's policy objectives. Tariff's reduction, trade quotas, special licenses to guarantee the supply of raw materials, energy and commodities together with the general preference treatment and foreign aid. When trade instruments are used, they normally create public goods for the two countries. Very often, we regard these as the use of positive national power. Its basic purpose is to reward the counterparts and hope the spillover effects will lead to positive policy outcomes. If we compare this economic statecraft to the long tradition of military philosophy, trade policy is much human and rational for us to follow. The irony is that no country is prepared to give up arms and simply follow the trade route of development. National survival and security remain very firm as the base of foreign policy.

I do not treat national defense as the use of negative national power, but, for too long, power politics and security constitute the center of diplomacy. In the long history of national statecraft either in this country or other parts of the world, diplomacy and the military can and should not be separated. In the foreign service, there is also a very long tradition that career diplomats only deal with state-state affairs, the consuls and the related employees deal with the trade matters. The treaties to regulate foreign and consular services also separate the two.

All of these have been transformed, making it a paradigm shift in the areas of foreign policy and international relations. Trade, development, culture and education have all become high politics of foreign policy. Each of them is so closely interrelated and the usage of "soft power" and "smart power" has become not only a catch phrase, but a policy guidance. Can we really differentiate trade, energy

and education between soft and hard or smart power? Or does it matter to make that kind of differentiation at all? In any case, when a country decides to use its economic power as a means of coercion, the concept of soft power will immediately become a hard power. The structure of power differs, but the intention of each power user can be easily identified. For this reason, trade and arms make no difference in terms of policy instrument, what matters is the intention of each country or its leader. Fortunately, for the last fifty years or so, there has been a steady tendency for national leaders to apply economic sanctions rather than to use the military force directly to achieve their policy objectives. Trade embargo, boycott and other measures have been used quite regularly by the major powers. These practices have created a new code of conduct or a new norm in international relations. The other side of the coin is that the information age has made it possible and imperative for nations to treat the knowledge-based economy, the culture industry and the creative economy as their policy agendas. Here, trans-national cooperation is needed and these areas of trade, science and technology will ultimately reinforce the existing trade-foreign policy nexus. For this reason, the proposed "Trans-Pacific Partnership, TPP" or "ASEAN Regional Comprehensive Economic Partnership, RCEP" has been carefully and seriously treated by the government and the policy intellectuals.

## **5. HOW MUCH CAN THE FTA HELP?**

It is clear by now that nations naturally pay a special attention to the FTA and place a high expectation on it for achieving faster and greater trade expansion and economic development. The FTA is not a panacea, as so many economists have pointed that out to their governments and the entrepreneurs. The good IPE and governance should form the base

of any country's industrial development. Once the countries concerned have reached the stage of economic take-off, the FTA really can help. We have used different names to describe this policy initiative, joint venture or economic cooperation between and among nations. Regional Trade Agreement, Preferential Trade Agreement, Closer Economic Partnership, Free Trade Area, Free Trade Agreement, Free Trade Area, Free Trade Association and Sub-regional Trade Grouping, to name just a few. All of the above-mentioned demonstrate a common feature, that is, the initiators want to reduce trade barriers and expand trade. After all these years, we now realize that it is probably even more difficult to reduce tariffs than to dismantle arms. The record has shown that arms control agreements are much easier to negotiate and conclude than trade agreements. I will invite everyone in this conference to congratulate Russia for joining the WTO and wish its economy well.

The benefits and achievements of the regional trade cooperation and integration have shown too clearly to us in the case of the European Union(EU) and the North American Free Trade Agreement(NAFTA). Bilateral FTAs are always slow to negotiate and conclude. Canada first proposed a bilateral free trade agreement to the United States in 1882, but failed. The British were only interested in reducing tariffs of other countries and gaining the most favored nation treatment. They had already built an empire and the sterling area, there was no need for them to sign bilateral free trade agreement with other countries then, even the United States. The idea of the NAFTA started very early and it took almost twenty years to conclude. The FTA with Israel is a very unique case. Strategic imperative served as the backbone of the FTA, but trade and economics provide a legal framework for two nations to get things done. Later, the United States applied the same

formula to Jordan and consolidated its foreign policy base in the Middle East. This trade-foreign policy nexus has been extended to Asia and the Pacific. However, we should bear in mind that politics and trade can go hand in hand, only because there are sufficient trading opportunities and potentials. Markets can be opened up by political means or the gunboat diplomacy as it was known in the past, but the operation of any market needs economic and material conditions. What is more, domestic and political backup are required as the import of American beef to Taiwan and South Korea has shown to us.

We are delighted to see the success of the EU and the NAFTA. Equally, we hope that the European financial crisis can be solved and the member states bring their economy back to normal. The EU is so unique and we doubt any other regions can easily apply its experiences. The ASEAN, the NAFTA and the MERCOSUR are all different. Even when Taiwan negotiated the Economic Cooperation Framework Agreement (ECFA) with the other side of the strait, we followed our own path carefully. Because the FTA will bring economic benefits and provide so much public goods, it is a venture that will continue to attract countries to explore, engage and participate. We have seen enough job opportunities created in Europe and North America, the problem-solving mechanism that benefited the governments and the business communities, legal protections for investment and the movement of personnel and goods across the border. Bilateral FTAs will therefore continue to grow and Taiwan will certainly make further efforts along this track.

## **6. THE CENTURY OF THE FTA AND BEYOND**

As Giovanni Arrighi has argued so well in his book—"the Long Twentieth Century", the capitalist

system has its natural mechanism to solve problems, although the system tends to create disparity, inequality and unfairness. Joseph Schumpeter and Robert Gilpin together with so many others have led us to see the future perspectives of the IPE. Many experts have expressed their worry about the role of the WTO and the prospect of free trade as the RTA and the FTA naturally exclude non-member states. Even all FTAs and RTAs are required to comply with the regulations and spirit of the WTO and the GATT, there are normal and legitimate concerns. If history can provide any guidance, we should not forget that national interest and mercantilism have always remained in the minds of almost all national leaders. When the British urged and promoted free trade so vigorously, it was the time of Pax Britannica. Less and less trade barriers benefited the nation which could produce so much and so fast. Under this harsh competition, other nations adopted protection measures in order to protect their domestic industry and national survival. It was the experience of the United States in the early days of the post-independence era. No wonder, other smaller newly independent states will do the same. These practices will not be necessary in this century of globalization, interdependence and the digital trade. The WTO will continue to play its constructive roles in enhancing and consolidating free trade. The fundamental challenges for the WTO are multinational negotiations and the consolidation of the free trade regime. As I repeatedly argue, the reduction of tariffs is so difficult to achieve, not because nations behave irrationally or any democracy needs to be sensitive about the attitude of the

electorate. It is an issue that affects almost every citizen of a nation and the daily life of any society. Almost every major power needs time to introduce the benefits of the FTA that will bring to the target nation, when it wants to win the necessary support for negotiations.

In Asia and the Pacific, there will be more FTAs. China, India, Japan, South Korea and Taiwan, of course, will take new initiatives to study, propose or actually implement their ideas. The China-South Korea-Japan FTA has been studied for sometimes, but it looks likely that China and South Korea will probably start their consultations first. It is too far-fetched to think about or discuss a BRICS FTA, because there are too much hurdles in the way. Taiwan naturally will do its best to complete the ECFA package and consultations or negotiations with other countries in the region. I have good reasons to believe that, with your support and understanding, Taiwan will do well, as it has always been.

---

Bih-jaw Lin is currently the Vice-president of National Chengchi University and a professor in the department of Diplomacy at National Chengchi University.

This article was first presented in the International Conference on “ASEAN Integration under the Global Political and Economic Trends: Major Issues, Impacts and Responses” in Taiwan on 7th September, 2012.

## SUGGESTED READING

- Arighi, Giovanni. *The Long Twentieth Century: Money, Power and the Origins of Our Time*. London: Verso, 1994.
- Blyth, Mark.ed. *Routledge Handbook of International Political Economy*. London; Routledge, 2009.

- Cohen, B.J. *International Political Economy: An Intellectual History*. Princeton, New Jersey: Princeton University Press, 2008.
- Gilpin, Robert. *Global Political Economy: Understanding the International Economic Order*. Princeton, New Jersey: Princeton University Press, 2001.
- Hobson, John M. *The State and International Relations*. Cambridge: Cambridge University Press, 2000.
- Keohane, Robert. *After Hegemony: Cooperation and Discord in the World Political Economy*. Princeton, New Jersey: Princeton University Press, 1984.
- Ravenhill, J. *Global Political Economy*. Oxford: Oxford University Press, 2008.
- Strange, Susan. *States and Markets*. London: Continuum, 1994.
- Idem. *The Retreat of the State: The Diffusion of Power in the World Economy*. Cambridge: Cambridge University Press, 1996.