

# Trade agreements are heavily influenced by the composition of trade advisory groups

The export of US agricultural crops like soybeans are being threatened with a 25 percent tariff as a part of a trade dispute with China over issues that has nothing to do with agriculture. Instead it involves the violation of intellectual property rights held by US citizens and corporations as well as US imports of aluminum and steel.

The US has ample evidence that US intellectual property rights are regularly violated by Chinese firms. The current administration also believes China is providing governmental support to its aluminum and steel industries, placing US firms at a competitive disadvantage.

This trade dispute reflects a general concern that many US citizen have about the impact of trade agreements on their lives. The low prices that they see as the result of trade agreements is less visible than the loss of manufacturing jobs to workers in other, lower-wage countries.

Both political parties have been inattentive to the concerns that average Americans have over various aspects of trade agreements.

Part of the roots of those concerns is that the average person feels disconnected from the extended negotiating process that results in bi-lateral and multi-lateral trade agreements. While the negotiations are conducted by representatives of the governments involved, these representatives depend upon trade advisory groups that can include a hundred people or more.

It appears to us that the disconnect the public feels, in part, reflects the composition of these groups. For the most part, the vast majority of the members of these groups represent the interests of corporations whose profits are affected by the results of the negotiations. And these corporate representatives have an outsized role in how the trade rules are written.

The fact that most trade agreements like NAFTA (North American Free Trade Agreement) have been opposed by organized labor reflects the virtual exclusion of these groups and other worker representatives from trade advisory groups, even though workers can be negatively affected by rules that make outsourcing profitable for corporations.

Another large group that has been excluded from equal participation in trade advisory groups is civil society. Civil society consists of groups that are concerned about the environment and human rights including religious groups as well as non-profit advocacy organizations.

The legitimacy of trade negotiations would be enhanced if labor and civil society each had as many members on various trade advisory groups as do corporate interests. The impact of trade negotiations reverberates well beyond the issue of corporate profits.

Will the inclusion of these groups in meaningful roles on trade advisory groups make trade negotiations more challenging? Probably—well, certainly. But, the legitimacy of the final product would certainly garner greater public acceptance and support.

But, that alone won't solve all the problems that result from trade negotiations. Some problems are the result of the fact that key elements of trade theory like comparative advantage were developed in an earlier era. The theory of comparative was propounded by David Ricardo in the early years of the nineteenth century to explain why countries engage in trade in the first place. Without going into the details of Ricardo's analysis, it is important to understand that at the time he developed his theory the capital assets of both countries used in his analysis were immobile.

Thus, even though the Portuguese had an absolute advantage in producing both linen and wine, in allocating economic resources each country had to produce something. Given the

specifics of the cost of production for both goods in Ricardo's analysis, England had a comparative advantage in producing linen. Thus, it was to the advantage of both countries to import a portion of their needs from the other. Portugal would produce more wine and less linen while the opposite was true for England.

But, if capital had been mobile like it is in the modern world, English investors would have moved their money to Portugal which had an absolute advantage in the production of both products and gained a greater return on their investment than they could get with either product in England.

In today's world, there are a number of countries that have an absolute advantage over the US in the cost of a key input: labor. The result has been the suppression of wages in basic manufacturing and the loss of jobs in industries like textiles, steel, and aluminum.

The US has maintained an advantage in high tech manufacturing due to the availability of a trained labor force that is not fully available elsewhere. But, the gains in high tech areas has not been sufficient to support the same proportion of middle class jobs that basic manufacturing supported a half-century ago.

The agitation against trade agreements is the result of those losses in many areas of the country.

Another issue is that theory suggests that exchange rates should equilibrate so that there are no long-term trade deficits and yet the US has had a long-term trade deficit. How is that?

The US has been the most stable place in the world for investors to park their money. As a result, the inflow of capital into the US balances out the trade deficits allowing the dollar to remain strong. At the point that the US is no longer seen as a stable place to park money, the cost of trade deficits to the US economy will be significant.

Our last point is to reiterate our belief that, since food is not a discretionary good even for a day, agricultural trade should be negotiated in a separate agreement apart from the WTO and the trade agreements negotiated under its aegis.

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