

## OPINION

# It's Time for a 21st-Century Trade Policy

By RAZEEN SALLY

Suddenly trade policy is in the news again after years of neglect. Japan in April announced it would like to participate in negotiations toward a U.S.-led Trans-Pacific Partnership (TPP) agreement. Washington and Brussels in January announced they will start negotiating a U.S.-European Union deal. Asian governments are working toward a regional trade pact of their own. Roberto Azevedo, the incoming head of the World Trade Organization, aims to partially resuscitate the moribund Doha Round by the end of the year.

These efforts might breathe new life into trade liberalization after years when trade took a backseat to other economic concerns. But there's a big problem with the WTO and free-trade agreements (FTAs) generally: They are 20th-century trade negotiations, when the world desperately needs 21st-century policies.

The Doha Round and the overwhelming majority of FTAs are wedded to an old vision of one country producing a good from beginning to end for export to another country. Most FTAs focus mainly on reducing tariff barriers. That makes these deals less relevant for a world in which a single good and its inputs can travel through multiple countries during assembly, in which tariff barriers are generally not the only or the most significant obstructions to trade, and in which trade in goods is only part of the overall trade picture.

In contrast, the defining feature of early-21st-century international trade is global value chains, or the fragmentation of production processes and lengthening of supply chains. Through outsourcing, off-

shoring and foreign direct investment (FDI), different parts of the value chain have come to be located in different countries. This process is most visible in manufacturing, but it is also happening in services such as finance and telecoms.

Trade along these value chains is the fastest growing element of global trade, and plays a crucial role in employment and productivity growth. Exports depend more than ever on imports. Import content is about 40% of the total value

## Scrap bilateral deals and 'country-of-origin' rules. Global supply chains need unilateral opening.

of exports, double what it was in 1990. Services are much more important than hitherto believed. They account for about 40% of international trade on a value-added basis, double the total that shows up in balance-of-payments statistics.

These characteristics of 21st-century trade should inform 21st-century trade policy. One practical implication is that although average import tariffs are now fairly low, "fairly low" is still too high when multiple countries' tariffs compound on each other as inputs cross borders multiple times. Another is that nontariff barriers, such as unnecessarily burdensome safety standards or regulatory hurdles for services trade and foreign direct investment, can no longer be overlooked in trade negotiations. Nor can onerous customs procedures, which now account for about 10% of trade costs or double

the cost of import duties.

The current crop of trade negotiations hasn't paid sufficient attention to these realities. Some of these negotiations have addressed non-tariff barriers such as technical barriers to trade and liberalization of services trade. Commitments in those areas tend to be weak, however. The TPP and the EU-U.S. "mega-regional" negotiations are more ambitious, as are the relatively few strong bilateral deals such as South Korea's FTAs with the U.S. and EU. But even they suffer some important shortcomings.

The biggest is that FTAs discriminate against non-members, and their proliferation has created a "spaghetti bowl" of overlapping, bureaucratic trade procedures. While they can't ignore the reality of global supply chains, their solution is to impose onerous country-of-origin standards that create red tape for businesses that have to prove their products contain sufficient local content to be eligible for FTA benefits.

The new mega-regionals will do significant good if they seriously tackle regulatory barriers, and do so by making new rules non-discriminatory. Then they would establish a template for future global liberalization. Still, they retain their 20th-century blinkers.

For instance, they are all wedded to obsolete notions of reciprocity. The theory holds that in order for one country to liberalize, its leaders need to show the public that they can extract equivalent concessions from a trading partner. Negotiations focus on opening the other market as much as possible while keeping one's own market as closed as possible. But this is nonsense in a supply-chain world where exports



depend on imports.

The expansion of global value chains should cause leaders to revisit the idea of unilateral opening. New political blocs of import-dependent manufacturers and services providers are growing in many countries, counterbalancing the old protectionist interests. Especially since trade negotiations are time-consuming—the Doha Round is in its 12th year and TPP talks have been underway since 2010—governments need to ask themselves why they're waiting to open their own economies to trade.

Meanwhile, it's time to breathe new life into the WTO as a venue for discussing those issues that can complement unilateral solutions. So far this has meant a focus on trade facilitation, or streamlining customs procedures, and there is an outside chance of an agreement by the end of the year.

The WTO should also tackle issues such as an updated Information Technology Agreement to widen the list of duty-free items and tackle non-tariff barriers to trade in information-technology products; new rules on openness to foreign direct investment; and much stronger commitments to opening up services markets. These would "lock in" previous unilateral liberalization, and set the stage for future unilateral opening by WTO members.

Above all, leaders need to recognize that 21st-century trade is happening already. The only question for policy makers is whether they're going to embrace measures that speed up the process, to the benefit of citizens and businesses alike.

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# Cambodian Democracy Deferred

By L. BROOKS ENTWISTLE

Exactly 20 years ago today, as the sun set over the village of Choam Khsan in northern Cambodia's Preah Vihear province, I watched as the final ballot boxes from that country's first modern election lifted off in a United Nations helicopter bound for Phnom Penh and the vote-counting process.

## Twenty years ago the world rallied to ensure free elections in the country. Today progress has stalled.

As the whirl of the helicopter faded into the distance, Choam Khsan district's polyglot U.N. elections team—which included my Swedish election official partner, Pakistani peacekeepers, Ghanaian civil police, Polish military observers and dozens of Cambodian election staff—looked at each other in disbelief. Despite a Khmer Rouge attack on Choam Khsan 10 days before voting began, we had helped accomplish the impossible. Cambodia had pulled

off a fair election.

Cambodians lined up for hours, in cities and remote jungles, to vote during those six days of polling in late May 1993. In the process, four million citizens made a strong statement about self-determination and their country's future. Norodom Ranariddh and his FUNCINPEC Party won the election with over 45% of the vote.

Once the euphoria of the election subsided and the U.N. moved on, however, the cutthroat reality of Cambodian politics soon took over. A former soldier named Hun Sen and his Cambodian People's Party, despite a second-place finish, began plotting to topple Mr. Norodom. The Khmer Rouge, who were never properly disarmed by the U.N., continued to attack civilians and government soldiers. In Choam Khsan, the post-election victory party lasted roughly six months before the Khmer Rouge retook the village and held it for several years.

In July 1997, Hun Sen ousted Norodom Ranariddh in a coup. While there have been elections every five years since, each has become less free and fair than the previous one. The next will be held this summer. Hun Sen is now one of the longest serving leaders in



Cambodian Prime Minister Hun Sen

the world, unchallenged by the crumbling democratic institutions around him.

Today Cambodia is a study in contrasts. Still extremely poor, the country has one of the highest rates of HIV infection in the world and is a major center for the sex-trafficking of minors. Yet Cambodia also plays host to some of Asia's finest hotels near the Angkor Wat temple complex in Siem Reap.

A little over two years ago, I went back to Choam Khsan for the first time to show my three young

daughters this defining part of my past. While the village was once only accessible by helicopter for much of the year, it is now a day-trip from Siem Reap thanks to a Chinese-built road network (which, less happily, also provides jungle access for destructive logging operations).

In 1993, my team had used helicopters, trucks and ox-drawn carts to haul voting booths across our rugged area of responsibility in Choam Khsan district. Worried my daughters would not believe how remote our outpost had once been, I was relieved when the turn off to Choam Khsan was still a small dirt track.

The village looked much the same, with livestock far outnumbering residents. As we walked its lanes, I found my Cambodian team leader Chea Polla. A dynamic and beautiful young woman—indeed the village star—when we worked together, she has had a tough two decades and today tends a small plot of land near her home. But unlike many of our local teammates, who died in land mine explosions or from gunshot wounds during the late stages of the war, my friend Polla is alive.

When I saw Polla she was saving money for a new home and

raising her three children. Her son Nimol, who has since graduated from college and found work in Phnom Penh, is one of my most active friends on Facebook. My own children were so moved by the trip that they want to live in Cambodia. Last week my eldest, a sixth-grader, organized a 26-kilometer walk with her friends across Singapore to raise money and awareness for water issues in the country.

Old Cambodia hands like me take some comfort in the promise of future generations. Sam Rainsy, the brave and outspoken opposition leader, told me in the late 1990s that while I should be discouraged that the village in which I had worked to bring democracy has gone backward, I also needed to realize that the seeds of freedom had been planted there, and all over the country, by free elections in 1993. Whenever they shoot to the surface, the international community must stand ready to nurture Cambodian democracy again, the way we did for a brief time two decades ago.

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