



Razeen Sally

Trade Policy, New Century: The WTO, FTAs and Asia Rising

London: Institute of Economic Affairs, 2008, ISBN 9780255365444, 229 pp., £ 12.50 (pbk.)

Based on a classical-liberal approach, in his recent book Razeen Sally provides an account of current challenges to free trade and offers solutions that he thinks best fit to the 21st century developments. He starts with providing a historical background of the issue and giving a summary of the main political and economic arguments in favour of free trade. According to Sally, although ideas about free trade started in the West –mainly by Adam Smith and David Ricardo, with the argument of absolute and comparative advantages- and were originally exported to the rest of the world, challenges for trade policy today come mainly from Asia.

Most Asian countries, China being the major one, have successfully integrated into the world economy, but this has been done chiefly through unilateral liberalisation, rather than with a process of multilateral negotiations. This has also been the situation for most other developing countries. In fact, as the recent stalemate of the Doha Round and difficulties facing World Trade Organization show, the author argues, the top down liberalisation approach of post-war period which relies on the multilateral institutions, and its decoupling from laissez-faire do not fit 21st century realities.

Sally calls for unilateral liberalisation within the context of small and limited government and criticises “globalization and social democracy” approach which holds that free trade abroad is compatible with government intervention to remedy domestic market failures, arguing that it has been the governments most of the time fail. For example, for the case of infant industries, he argues, in East Asia its record is mixed at best in Japan, South Korea and Taiwan; non-existent in free-trade Hong Kong and Singapore; and failed in South-East Asia (e.g. national car policies in Malaysia and Indonesia). And in Latin America, South Asia and Africa it has been a disaster not dissimilar to industrial planning in ex-command economies. Therefore, according to Sally, openness and free trade is necessary for growth and development. He says that the historical record shows that countries that are more open to the world economy perform better than those that are less open and no country on earth has seen a sustained rise in living standards without being open to the world.

Another recent issue regarding the free trade, the rapid spread of Preferential Trade Agreements, according to Sally, is basically a dangerous one. He says that they are no substitute for a workable WTO, as nearly all of them are weak, trade-light and full of discriminatory provisions that potentially restrict trade. But in certain conditions, according to Sally, they can reinforce market reforms, but only if they are strong, comprehensive, WTO-plus, competition-enhancing agreements. Sally claims that PTAs are most of the time result from foreign policy considerations rather than pursuing economic benefits. He especially points to the issue of rules of origin which complicates international trade and which, according to him, make no sense in a world where production of goods is fragmented, with different parts of the value chain located in different countries.



As well as the problems of developing countries in opening up their economies and liberalising their trade, Sally also highlights the developed-country protection, chiefly being agricultural subsidies, anti-dumping duties, regulatory barriers such as product standards, and high restrictions on the cross-border movement of workers. And lastly, the two other major challenges to free trade today, for Sally, are the rising protectionism with the claim to combat global warming and climate change, and the argument of protection of “national champions” within the context of rising investment and energy nationalism.

As a solution to all these problems, Sally argues for unilateral liberalization in a context of classical liberal political economy and as an integral part of a domestic liberal political agenda, rather than the previous top-down approach of post-war multilateral institutions, being first GATT and then the WTO. And in doing so, he also advocates involving in realist power politics, by supporting outward-looking commercial interests (such as exporters, downstream users of imported inputs, multinational firms with global production networks, cities and regions seeking to attract FDI) that can counter inward-looking protectionist interests; and taking advantage of (often unanticipated) events, such as economic crises, which can provide a catalyst role in further liberalisation.

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