

Special Issue Introduction and Commentary on Trade and Economic Diplomacy

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Support for global economic integration and engagement may be at its lowest level in the modern era. The United States is retreating from its long-held position as the leading advocate of trade and economic interdependence. While tensions between the U.S. and China, two world powers jockeying for global leadership, may be seen as inevitable, trade tensions between the U.S. and its key allies, such as the European Union and Canada, is also growing. The resulting trade disputes and outright hostilities threaten global economic and political stability. Some of this tension reflects a more fundamental trend, especially in the US and European Union, toward a more isolationist and nationalistic outlook by a citizenry that has become skeptical about the benefits of globalization and integration. These pressures have manifested in the decision by the United Kingdom to exit the European Union, an outcome that threatens to disrupt the economies of both the UK and EU and reverse the steady half-century movement toward greater European integration. With a major round of trade talks between China and the US scheduled for early 2019, leading up to an early March deadline, and time running out to negotiate Britain's withdrawal from the European Union before the end of March, this Special Issue on Trade and Economic Diplomacy provides a timely discussion of the issue and challenges facing the global system of trade in an era of increasing nationalism.

In the lead article, Kobrin poses a series of questions generated by recent anti- and deglobalization trends. He wonders whether globalization is an inevitable state or could unravel, and also whether a global system could be constructed that both promotes economic integration and all of the benefits it generates, while acknowledging the need for national sovereignty and independence, and preserving the rights of nation-states to oversee important aspects of their domestic economic destiny. Regarding the first question, he contends that such a system is

not inevitable: a strong economy must take the lead to create a dynamic system of trade that will benefit the broadest group of nations and their stakeholders. He contends that leaders of the strongest of economies must move beyond a mercantile mindset and shorter-term, zero sum assessments of economic gain by recognizing longer-term benefits of trade on economic stability and peace. Following Rodrik, Stiglitz, and others, Kobrin observes that the “second wave” of globalization involved much deeper integration than the first wave, generating spillovers into areas that heretofore had been the purview of national governments. This “behind the border” integration, and the increased attention to the visible – but highly concentrated – costs of trade that unfortunately command the attention of politicians and the media, has created a fundamental fissure in the global trading system. As economies grow in scope and complexity, it is harder for leaders to balance competing interests, and those stakeholders who perceive their interests to be harmed are often the most vocal and can command considerable voice and influence. He concludes with a challenge to the AIB community to engage in these important debates that can help to preserve the global trading system, while acknowledging those who have been harmed by it.

One of the complicating factors in re-writing the rules of global trade is that economic value chains have become so substantially integrated that any change – or proposed change – ripples through global supply chains, generating disruptions and sometimes unforeseen impacts across countries. It is in this context that Van Assche and Warin argue that traditional trade diplomacy's emphasis on export promotion and inward foreign direct investment (FDI) attraction overlooks the increasing benefits of complementary import attraction and outward FDI promotion. They illustrate that these complementary benefits are most noticeable in resource acquisition and development of

sophisticated supply chains. Managing global rather than local supply chains better ensures quality, supply, and pricing advantages of resources. We note that managing a global supply chain is more complicated if the network of firms spans countries governed by numerous bilateral trade agreements rather than a few regional or multilateral trade agreements. Greater attention to – and understanding of – these globally integrated supply chains can help to ensure that trade and economic diplomacy fully incorporates the current realities and forestalls unnecessary disruption to global trade and commerce.

Barbara Weisel, a veteran of trade and economic diplomacy in the Asia-Pacific region, details the multifaceted advantages of multilateral trade agreements (over bilateral deals), but also the benefits accruing to those who take an active part in negotiating these agreements. Disparity in labor compensation and conditions, intellectual property rights, and environmental regulations across emerging and developed economies often drives opposition to free trade. However, even without free trade agreements, job loss and erosion of employment benefits have increased as multinational firms outsource to take advantage of disparities in wages and environmental regulations. She notes that countries leading multilateral trade negotiations set the international standards for wages and working conditions, intellectual property rights, and environmental standards. These standards can help reduce disparities, but this process takes time. However, negotiating standards is one of the few concrete steps a nation can take to level the “playing field.” Ironically, the decision by the Trump administration to withdraw from the Trans-Pacific Partnerships, the comprehensive trade and investment agreement among twelve Asian-facing nations, and cede that opportunity to influence the terms of trade to the remaining eleven countries, has the unintended effect of strengthening China’s influence in setting standards for labor, intellectual property rights, and environmental regulation.

Free trade advocates must recognize that disruptions caused by globalization are real and significant. Income disparity and job displacement, coupled with immigration, migration, and refugee crises, have magnified the fears and losses of those adversely affected by globalization. The resulting rise in nationalism and aversion to free trade will not be averted by traditional arguments that trade is economically beneficial in the aggregate. These economic concerns, and the geopolitical implications of rising nationalism, warrant new economic analyses, theories, and debate on the specific challenges and benefits of economic integration in the twenty-first century.

As international business teachers and scholars, the AIB community has a longstanding interest in calling attention to the many dimensions of globalization and economic integration. As educators and researchers, we are in a strong position to offer reasoned, well-supported, evidence-based and impartial assessments of global trends and phenomena, including those

related to the benefits and costs of globalization. We hope this Special Issue will spark more discussion on how best to improve and adjust the global system of trade to minimize disruptions and increase benefits to a wider band of worldwide stakeholders.