



IEP Newsletter—Fall 2006

International Economic Policy (IEP) Concentration

School of International and Public Affairs (SIPA)

Columbia University

International Trade in the Spotlight

With the collapse of the Doha Round of trade talks this past summer, and the Democrats retaking both houses of Congress this fall, the future of free trade has become something of an open question. More than a few pundits, politicians, and economists have begun to wonder if we are moving into an era of greater protectionism and isolation.



This shift in the discussion over trade, however, has been building for some time. The debate has become less about “free trade” versus “no trade” as it is about “free trade” versus “fair trade”, as Joseph Stiglitz discusses in his new book, *Making Globalization Work*. The United States may have given up on multilateral trade talks, but it is moving full steam ahead with bilateral trade agreements with countries such as South Korea — something that has certainly not escaped the notice of Pascal Lamy, Director-General of the WTO. And those familiar with the EU defense market would be quick to note that the U.S. is not the only place in the world trying to find a balance between protecting local industries and remaining open to the world.

It is within this confused and somewhat contradictory context that we place this semester’s issue of the International Economic Policy newsletter. We’re delighted to bring you articles on all of the various issues discussed above, as well as a piece on Indian Commerce and Industry Minister Kamal Nath, who spoke at a conference on India earlier in the semester. In addition, we’ve got descriptions of a few internships that are sure to be of interest to those new IEP students who are beginning to think about next summer. We hope you enjoy!

IEP Newsletter Committee

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Kamal Nath Speaks at the *India: An Emerging Giant* Conference

An overwhelming number of researchers, professors and Columbia University students and alumni participated in the October 13-15, 2006 conference, *India: An Emerging Giant*, a partnership of Columbia Business School and the School of International and Public Affairs. A collaboration of Columbia University Professors Jagdish Bhagwati and Arvind Panagariya, the conference featured topics such as India's transformation, infrastructure, outsourcing and the growth of the economy.

With a growth rate of 8 percent, India is one country hard to ignore in a globalized world. What put it even more firmly on the world map was India's vocal presence at the Doha round of negotiations at the World Trade Organization (WTO). Kamal Nath, the Indian Commerce and Industry minister who led the G-20 (the development country grouping) in negotiating their interests at the WTO, is an ideal person to answer questions about India's place in the global economy.

As keynote speaker at the conference, Nath narrated the "India story" of economic growth and changing attitudes of Indians. "It's not merely the world's perception of India changing," he said, "it is our perception of ourselves that is changing as well." Elaborating on the challenges facing India he said that India's biggest challenge was to achieve not just economic growth but "inclusive" growth for all. In a teeming democracy of over a billion people that can certainly prove to be an uphill task.

Minister Nath noted that moving subsistence farmers from agriculture to manufacturing would be one of the goals for his ministry. Over the next ten years, the commerce minister wants 100 million people to make the move. In reference to India's role in the WTO he said that he had often been called an "obstructionist" at the Doha Round of trade negotiations. However, he believes that the U.S. and EU should reach an agreement on important yet contentious issues, such as agricultural subsidies, so that the developing countries can move forward.

Kamal Nath also touched upon a comparison of India and China. Talking about the large scale Special Economic Zones (SEZs) in China, he noted that such a model was not as simple in India. With so many players involved, consensus on these issues is not only problematic but sometimes socially unviable. "Clearing out forest land for the purposes of an SEZ is not always possible in India," he said. "In any case, India had achieved a lot in that area," he mentioned. How critical these SEZs are to economic growth is another matter. As professor Bhagwati later pointed out, "SEZ[s] have outlived their purpose, what we should look at is reforming labor laws instead."

Democracy has its own challenges. Pushing reforms under a diverse coalition has not been easy for most ministries in the past. And as Kamal Nath pointed out, "my constituents in Chindwara [a small tribal town in central India] do not care about what I say at the WTO... They want to see whether it brings any immediate benefits to them."

As the culmination to the three-day event, the minister's address provided a good starting point for intellectual discussion and deeper analysis of development issues for future policy-makers. "I am very happy with this conference," said Prof. Panagariya later. "And I am glad that the minister could make it and talk about the challenges India faces for further reform."

- Anuja Joshi Pande, MIA '07



India in the Global Economy

- India's growth rate of 8 percent places it as one of the fastest growing economies in the world
- Kamal Nath, currently India's Commerce and Industry Minister, has also led the G-20 in WTO negotiations.

Making Globalization Work: Professor Joseph Stiglitz at the World Leader's Forum



Making Globalization Work

- Joseph Stiglitz's latest book is a follow up to his book *Globalization and its Discontents*
- In it, he puts forward a number of policy recommendations aimed to redress some of the failings that he sees in globalization as it exists today.

On Monday, September 18th, Joseph Stiglitz kicked off the 2006 World Leaders Forum. Joined by Nancy Birdsall, President of the Center for Global Development, Tina Rosenberg, editorial writer for the New York Times, and George Soros, founder of the Open Society Institute, the topic was Stiglitz's new book, *Making Globalization Work*. Later in the week, at a different event, Stiglitz would joke that he wrote the book because his wife, tired of hearing him go on once more about the ills of globalization, asked him when he would stop complaining and start doing something about it. This new book picks up where his most famous work, *Globalization and Its Discontents*, left off, putting forward some policy recommendations that he feels would go a long way toward making globalization more equitable.

The Nobel Prize winning economist began by noting that there have been more than 100 financial crises in the past 30 years, and that "Washington Consensus" countries (i.e., those countries that implemented to the fullest extent policies put forward by the IMF in the 1990s) are now growing at half the rate they were in the 1960s. Stiglitz sees three main reasons for this. First, economic globalization has outpaced political globalization, which has in turn put efficiency over fairness. Second, failed Cold War aid policies remain the norm today. And lastly, many policymakers have maintained a "Pollyanna-ish" view that everyone will benefit from globalization, ignoring numerous economists who have said otherwise (for example, by noting that globalization would lead to downward pressure on wages).

Stiglitz spent some time discussing intellectual property rights, noting that it's an area he has some personal experience with, as he was asked by a Chinese publisher to write the introduction to a pirated edition of his own book. Intellectual property rights are indeed important for innovation, Stiglitz said, but the current IP regime gives too much power to patent holders. The modern car, for example, would not exist if Henry Ford had not fought to overturn a patent on "four-wheeled, self-propelled vehicles". His major point was that the TRIPS (Trade-Related Aspects of Intellectual Property Rights) agreement under the WTO is fundamentally flawed, especially with regard to drugs. Stiglitz argued that one way to get around these flaws would be to offer prizes for the development of drugs, which would then be released patent free and distributed by normal market mechanisms. He concluded by asking whether or not change will come as the result of crisis or because of careful forethought. The book, he put forward, was written hoping for the latter.

The microphone was then passed to Nancy Birdsall, who attempted to compare Stiglitz's book to Jagdish Bhagwati's *In Defense of Globalization* by noting the number of times words such as "fairness", "social justice", and "equality" appear in the index of the respective books. She used this as a jumping-off point to discuss the fact that economists still think in terms of the trade offs between growth and equality. George Soros offered perhaps the most interesting observation of the night, noting that while Stiglitz did an excellent job of discussing capital flows, he ignored the issue of migration, the least liberalized of the various forms that globalization takes. Finally, Tina Rosenberg noted that trade agreements offer a prime example of an area in which rhetoric does not match reality. If free trade was truly the goal of policy makers, the world could be covered by a single, five word trade agreement: "There shall be free trade." Instead, the most recent WTO agreement was 22,000 pages long.

- Matthew Wittenstein, MIA '07

Pascal Lamy on Multilateralism and Bilateralism

Following in the footsteps of Dwight D. Eisenhower and Boutros Boutros Ghali, World Trade Organization (WTO) Director-General Pascal Lamy delivered the 2006 Gabriel Silver Memorial Lecture on October 31 at SIPA. In his lecture, entitled "Multilateral and Bilateral Trade Agreements: Friends or Foes?", Lamy addressed the nearly 400 bilateral and regional agreements that are expected to be in place by 2010, accounting for between 15 and 40% of total world trade. Many will be between developing countries, as China, India, Brazil and other emerging powers seek to consolidate their roles as regional trade hubs.

Mr. Lamy elucidated the benefits that countries can accrue from bilateral and regional deals, which can take into account investment, competition, labor standards and the environment – areas in which consensus has thus far eluded WTO members. The small number of countries involved makes reaching agreements faster than the glacial pace of WTO-sponsored rounds, and inexperienced negotiators have an opportunity to sharpen their skills.

Looking at the downsides, Lamy pointed to the inherently discriminatory nature of these agreements. Lamy further stressed that, "A minority of preferential trade agreements actually result in totally free trade among the parties." Particularly confusing are the rules of origin that force some suppliers to tailor their production to individual agreements while also complicating customs officials' task of inspecting incoming goods.

The political alliances created in part through signing bilateral agreements overwhelmingly favor the developed countries over their developing partners, Lamy said. This may put developing countries at a disadvantage at the WTO as they are forced to support the position of their larger partner. Lastly, Lamy noted that "regional trade agreements often act as disincentives to multilateral negotiations." Some members may offer little during WTO negotiations as a way of bolstering their position in future bilateral and regional negotiations.

The official WTO position is that preferential agreements should complement WTO commitments without undermining them. Although processes are in place to assure this outcome, "the consensus rule on WTO decision-making has resulted in the review process of the WTO Committee on Regional Trade Agreements being blocked," said Lamy. New rules under consideration include a transparency mechanism that would require all new preferential agreements to be reported to the WTO Secretariat before taking effect. The Secretariat would then prepare an objective analysis of the agreement, allowing all members access to the information.

Following the presentation, the Director-General took questions from some of the eminent economists in the audience. Professor Jagdish Bhagwati inquired as to whether it would be better to allow today's bilaterals to "congeal" into a new multilateral system and whether preferential agreements and WTO-style negotiations can coexist. Lamy responded forcefully, saying that "coexistence is by far the best option." Regional agreements solidifying into continental agreements will create further barriers to trade, according to Lamy. Couching trade in the language of global security, Lamy said that opening up to trade makes the planet more secure and more peaceful, while continental trade blocs produce the exact opposite effect.

Professor Richard Gardner asked whether it would be possible to conclude the Doha Round by the Summer of 2007. Lamy answered that Doha's conclusion depended on a number of factors, not least of which is whether the U.S. Congress renews the U.S. President's fast-track negotiating power. Congress' refusal to extend normal trade relations to Vietnam and the newly elected Democrats, many of whom ran on platforms expressing skepticism to free trade, make this seem unlikely. Lamy concluded his remarks by announcing that if an agreement has not been reached by Spring 2007, the case for extension will be very weak.



Making Music Together: The U.S.-South Korea Free Trade Agreement (FTA)

The South Korean embassy in Washington, D.C. recently changed the name of its public information center to “KORUS House”, a derivation of “Korea-U.S.” It is no accident that the name implies harmony and togetherness, or as one embassy official recently told me, it represents South Korea and the U.S. “making music” together. Some have argued that bilateral relations have never been stronger, the result of a solid political and security relationship as well as growing economic links. South Korea is the United States’ seventh largest export market and its sixth largest market for agricultural goods. In addition, the U.S. is South Korea’s second largest trading partner and its largest source of foreign direct investment. Bilateral trade last year alone totaled \$72 billion.

Thus, both sides of the Pacific greeted negotiations for the KORUS Free Trade Agreement, as it is known, when they were announced earlier this year with great anticipation. The U.S. Trade Representative at the time, Rob Portman, called the KORUS FTA the “most commercially significant free trade negotiation we have embarked on in 15 years.” The KORUS FTA would create the second largest free trade area for the U.S. (in dollar terms) after NAFTA. Economic benefits aside, the importance that policymakers in Washington have attached to the FTA has much to do with America’s competitiveness in East Asia. As China’s trade with its partners grows at breakneck speed, the United States sees the KORUS FTA, as well as the potential U.S.-Malaysia FTA, as avenues for strategic positioning in the region.

South Korea’s ban on American beef and its screen quotas, which limit the number of foreign films that can be shown in the country by giving preference to domestically produced movies, may prove to be challenges to the KORUS FTA. These issues are being taken seriously by the South Korean government, though, which recently announced it would begin to import small amounts of U.S. beef and lower the screen quota.

On the American side the U.S. Congress remains the main challenge to the KORUS FTA. President Bush’s Trade Promotion (also known as “Fast Track”) Authority will expire next year, and is unlikely to be renewed, and it is unclear whether the new Democratically controlled Congress will be as pro-trade as their predecessors. Yet, at the time of its announcement, Congress seemed open to the agreement.

Whether or not the KORUS FTA will be able to make economic “music” together is uncertain. Initial negotiations have been fruitful and the South Korean government has shown a willingness to put issues on the table that the Americans view as important. It would indeed be unfortunate if Congress shuts down an agreement that would both further solidify America’s relationship with one of its closest friends and create economic opportunities here at home.

- Lisa Chung, MIA ‘08

KORUS FTA:

- Announced in February of 2006
- If passed, would be the largest FTA agreement of the past 15 years
- Korea is the United States’ 6th largest trading partner
- The U.S. is Korea’s second largest trading

Trade and the European Defense Market

One could be forgiven for believing that Europe is a continent of free trade, from the cliffs of Ireland to...well, they haven't exactly figured out where the eastern border is just yet. And while much of Europe's economy is borderless, the specter of protectionism still haunts the finance and trade ministries in some European capitals. Americans rightly decry the EU's discriminatory Common Agricultural Policy (which promises a sustainable European farming industry and a way for Europe's former colonies to develop but delivers neither). The CAP is bad enough. Protections given to European defense industries may prove even more intractable.

If you guessed that the U.S. offers a more attractive defense market, you'd be right. By some estimates, the U.S. spends four times as much on defense as the Europeans (the EU as an organization spends almost nothing on defense). And the Pentagon spends a greater percentage on research and development (13% compared to Europe's 7%), making advanced weaponry, along with technologies with significant civilian uses (like the Internet), more likely to be developed in the US.

With that in mind, it's not surprising that European defense firms are scrambling for access to the U.S. market, creating partnership agreements so complex Jean Monnet would be proud and gobbling up unprofitable U.S. defense firms as a means of gaining a foothold in the U.S. market. Back in Europe, this merger mania has caused a measurable shrinkage in defense markets. EU Commission Vice President Gunter Verhugen noted that Europe's defense market is "roughly half the size of the U.S. with three or four times as many arms producers." Many of those producers are state-owned or state-controlled, producing obsolete products that serve only to exacerbate the capability gap between the U.S. and Europe. Europe's treaties establishing the common market explicitly allow protection in the arms trade, keeping these bloated firms in business long after they have lost any competitive edge they may once have enjoyed.

Recently though, Europe has taken some small steps toward greater coordination and integration in its defense market. In 2005, the European Defense Agency (EDA) created the "European Defense Procurement Market Project," a website that the EDA envisions as a sort of Craigslist for defense ministries. Member states can post announcements for projects, and agree to adhere to a voluntary "Code of Conduct on Defense Procurement" that seeks to preclude national preference as the dominant factor in awarding military contracts. The EDA appears to understand just how contentious trade politics can be, especially when the industry is defense, and so it has made it clear that governments can choose to participate if and when they wish, and need only submit a letter to the EDA when they disregard the code of conduct. So far, over forty projects have been posted on the project's website, but the EDA estimates that only half of the continent's bids were open to competition, and only one in ten was openly advertised anywhere.

Cheerleaders of European defense coordination hasten to add that more projects will be advertised on the website as it becomes better-known. But it may not be enough to stop the exodus of European firms to the more attractive U.S. market. European and U.S. policymakers might consider creating a free trade area in arms, both as a way to keep Europe's defense industry alive and as a step toward a Euro-Atlantic common market.

- Patrick Peterson, MIA '07

Defense spending in Europe and the US:

- Europe as a whole currently spends more than \$230 billion on defense.
- Officially, the United States spends \$449 billion dollars on defense, but some estimates put total spending at almost \$700 billion.

Summer Internships

Patrick Peterson: GAO (Government Accountability Office)

This summer, I interned with the U.S. Government Accountability Office in their Washington headquarters. I worked in the Acquisition and Sourcing Management team, which is tasked with auditing how the Government works with private companies to buy and maintain all the goods and services that the Government requires. Although it sounds boring, ASM does work on some of the most important issues: I worked on a project that looked at the use of private contractors for the Defense Department's weapons systems acquisition program. The guy across the cubicle from me audited the use of private contractors in Iraq, and another intern examined how NASA spends its money. GAO is involved in every sector where the Federal Government spends its money, from public education to international affairs and trade policy.

GAO interns are treated as full-time members of a team and are given a great deal of responsibility. I led the audits for two contracts totaling \$30 million and served as the backup on a dozen others. GAO expects its interns to take initiative and learn quickly. In return, you get a great experience with an engaged team and tons of opportunities to learn new skills. And you also get paid a rather generous salary (for government work).

GAO uses its internship program to screen candidates for future employment, so competition for intern spots can be tough. You should have a good idea of what skills you have and how they fit in to GAO's mission before you apply. Fortunately, SIPA has a number of employees at GAO, and in my experience they're all great resources, so don't be afraid to reach out to them. Also, it helps to go to the informational interviews and other presentations that GAO gives, and don't miss the DC career fair this January.

Especially for IEPers, there are really a lot of opportunities throughout GAO's organization, either in DC or in one of their field offices. I'm happy to help folks out with their search, and hope you'll think about GAO.

Anuja Pande: AIG, Corporate Research

As the spring semester gained momentum the pressure to have an internship for the summer also picked up. So while figuring out the IS-LM model and dealing with the rigors of Econometrics, most IEPers were obsessing about the perfect internship out there.

With that came along a posting on the Office of Career Services website that actually made sense for the concentration. The American International Group – a leading international and financial services organization – needed an intern in their Corporate Research and Development group to do research on a broad range of economic, business and political issues.

At the interview I was informed that the group does country risk analysis, examines business and political trends in emerging markets and indirectly identifies sectors for AIG's entry into newer markets. Most research dealt with macroeconomic trends and policy changes in largely emerging economies. Along with that, the interviewer also explained that the group indulged in a bit of an "intellectual entertainment" for the higher ups – meaning various presentations for senior executives unfamiliar with certain issues or sectors in international markets.

Fortunately, the internship experience turned out to be as exciting as it seemed at the time of the interview. It was particularly rewarding for the International Economic Policy concentration. With a heavy focus on research and analysis it was productive in putting some of the core IEP courses to use. International trade and monetary theory proved to be good courses for understanding country risk analysis. Emerging Financial Markets, though not a core requirement of IEP, also proved beneficial in unraveling some of the issues in emerging economies.

It proved extremely rewarding to be surrounded by regional experts (most of them SIPA alumni) in Asia, Europe, Latin America and Africa. I worked on a country risk analysis report of Lesotho, a small African country surrounded by and heavily dependent on South Africa for trade and commerce. Remittances of Lesotho workers from South Africa contribute significantly towards its national income. A detailed analysis of its current account and foreign investments, exchange rates and inflation comprised a big chunk of the main analysis. Based on this analysis ratings were issued and discussed exhaustively in staff meetings later.

The research team also stayed on top of current affairs by writing analytical reports on recent trends. For instance, I wrote about the geopolitics of oil as oil prices headed towards almost \$80 a barrel over the summer. The spiraling oil prices created quite a stir in Wall Street as well as the rest of the world. A deeper understanding of the impact of oil prices globally given China's insatiable energy needs proved to be very educative.

A large part of the internship also involved writing for the weekly news digest. Since I come from India, working on the South Asia page and writing about key political and economic events in the region was a lot of fun.

The internship did prove to be very productive personally. It was a rich experience and in a way an extension of what we had learned during the academic year.

Matthew Wittenstein: Office of Management and Budget (OMB)

I worked this past summer at the federal Office of Management and Budget in Washington, D.C., in the Budget Systems and Analysis branch. While something of a departure from the core IEP curriculum, it nevertheless gave me an excellent overview of the federal government, and in particular the budgeting process – which is far more interesting than one might expect!

I worked on the Budget Formation and Execution Line of Business, a White House mandated program to streamline the annual budgeting process. Unlike many cross-government projects, this one was not an attempt at mandating standards government wide. Instead, its goal is to standardize at the margins, creating a set of tools and procedures that agencies could implement as necessary in order to meet OMB standards for budget submission. My main project for the summer was a cost-benefit analysis model for the entire program. I was also able to sit in on (and, by the end of the summer, participate in) a regular series of meetings on budget related issues, which involved nearly all of the various government agencies, from the Department of Agriculture to the U.S. Treasury. There I was pleasantly surprised to find a large number of government employees truly passionate about the budgeting process.

On the whole, OMB is an excellent place to work. It is relatively small (around 500 people), and a very flat organization. OMB is very much respected by the rest of the federal government, making it an excellent stepping stone to other agencies.

Adriana Suarez: Inter-American Development Bank (IDB)

I completed my summer internship at the Inter-American Development Bank (IDB) working as a Research Fellow in the Integration and Trade Division. As part of my work, I supported the team analyzing trade data for some Latin American countries and drafting technical and sector notes for Ecuador and Bolivia. Those documents highlighted the importance of trade in the economies of Ecuador and Bolivia by focusing on recent trends, policy developments and economic integration efforts undertaken by both countries at the regional and global level. My main objectives in drafting the notes were to identify existing and potential obstacles that could restrict a successful integration of those economies into the world market, and to inform the Bank's country strategy and programming to remove such obstacles. To this end, I participated in several meeting with experts of the Division, conducted extensive policy and economic trend research and analyzed trade and economic data, using different software tools such as World Integration Trade Solution (WITS). Working for a prestigious organization such as the IDB, interacting with experts in the field of trade, and living in Washington D.C was a delightful personal and professional experience.

Selected IEP Activities

September 8 and 9, IEP Retreat: About 50 IEP students trekked upstate for a weekend in the woods at Camp McAlister, in Huguenot, New York. The event offered students a great opportunity to meet one another and get involved in the concentration.

September 22, IEP Welcome Lunch: Professor Merit Janow, Director of the IEP concentration, joined nearly thirty students for an informal luncheon at SIPA.

September 28 and 29, IEP Summer Internship Panels: Second-year IEP students discussed their experiences working with the UN, the Federal Reserve Bank of New York, Citigroup and the OECD, among other organizations.

October 24, IEP Midterm Coffee Hour: Students took a short break from midterm studying to share some coffee and munchkins.

October 31, Pascal Lamy, Gabriel Silver Memorial Lecture: IEP students assisted the distinguished lecture series event, which featured the Director-General of the World Trade Organization (WTO).

November 29, IEP Social: A group of IEPers met for a night of drinks and live music at Prohibition, on Columbus Avenue.

December 1, Curriculum Panel: A number of students came to hear a panel of second-year IEP students share their opinions on classes they've taken at Columbia.



IEP Students enjoying the retreat

International Economics Policy Concentration

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