

As we will see from the discussion recounted below, the prospects are not without hope, but there are no clear answers to these questions, which means that 2005 will, for those involved in trade policy, be a year of living rather nervously.

### **The macroeconomic and geopolitical context**

Historically, many have argued, the macroeconomic context has played an important role in the progress of trade rounds as policymakers looked to trade to help resolve imbalances.<sup>3</sup> This time around, it was pointed out by some observers, the linkage is not being made. Not even by markets.

*Global imbalances are not driving trade activism...*

In the shadow of global macroeconomic imbalances the sheer size of which is straining the imagination of the economic commentariat if not yet overtaxing the nerves of international investors, 2004 was the best year for global growth in several years. The macroeconomic imbalances have to date been benign and, going forward, are not expected by the mainstream to lead to precipitous adjustments.

As regards exchange rates, some 50 percent of the adjustment in exchange rate parities thought by some to be needed to help turn the dynamic towards reducing imbalances had already happened by the end of 2004, albeit in an unbalanced way, with the US dollar depreciating against the euro and the floating commodity currencies but with limited participation from Asia. The key to the remaining part of the dollar adjustment was thought to be China moving to a more flexible exchange rate regime, which it had long signaled it would do when the re-

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<sup>3</sup> See, for example, C. Fred Bergsten, "The International Monetary Scene and the Next WTO Negotiations", in Jeffrey J. Schott, *Launching New Global Trade Talks: An Action Agenda*, (Washington: Institute for International Economics, September 1998): 39-46. Also see John M. Curtis. "The Role of Contextual Factors in the Launching of Trade Rounds", in John M. Curtis and Dan Ciuriak (eds.) *Trade Policy Research 2002* (Ottawa: Department of Foreign Affairs and International Trade, 2002): 33-70.