

TRADE IN A POST-DOHA WORLD  
A presentation to the  
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To paraphrase the late Richard M. Nixon, “What are you going to do, now that you won’t have Doha to kick around anymore?” Trade ministers in all the major countries are pondering this question. And businessmen around the world will feel the effects of decisions those trade ministers will make.

My project for today is to explain why Doha came to a halt, to help you understand the difficult choices we now face, and – putting this into the context of American election year politics – to give you some insights into the international trade views of the Obama and McCain campaigns.

I. High Drama and Dashed Hopes at the Geneva Ministerial

As everyone now knows, the Doha Round Ministerial meeting in Geneva in late July ended in failure. What you may not know is how close the negotiators came to putting together the basic elements of a deal.

You will recall the major problems that this Round has faced:

- The process of “herding the cats” – The WTO now has over 150 Members, more than 70% developing countries, most of whom are (a) unsophisticated and (b) intent on “getting our fair share, which never happened in previous rounds”
- Divergent views among developing countries, especially between agricultural exporters and agricultural importers
- The initial overselling of a “development round,” leading developing countries to assume that they would get benefits but would not have to give anything much

- For developed countries, on the other hand, the reality that gains for their exporters would have to come almost entirely from the developing countries (i.e., the countries with growing markets and relatively high tariffs)
- Political opposition in the U.S. and Europe to concessions in agriculture – in the U.S., opposition to reducing trade-distorting farm subsidies and in the EU, opposition to reducing tariffs and quotas on farm imports
- Political opposition in many developing countries, led by India, to reducing import barriers that protect their subsistence farmers
- Political opposition in a different group of developing countries, also led by India, to reductions in the tariffs that shelter their domestic manufacturing industries.

With all of these problems, one might wonder how anyone could have a reasonable hope that this ministerial could succeed. But a plan had been concocted, and it almost worked.

The strategy of the U.S., the EU and (silently) WTO Director General Pascal Lamy was to isolate India by fashioning a compromise on agriculture that would induce Brazil to break off from its negotiating solidarity with India. And, lo and behold, it worked! Lamy issued a paper calling for improved offers by the developed countries on agriculture and improved offers by the developing countries on NAMA. This led to vigorous minister-level negotiations, in which the United States proposed a reduction in the cap on its agricultural supports and an improvement in its proposed implementation of the WTO decision against U.S. cotton subsidies. The EU agreed to a larger reduction in its agriculture tariffs. And a consensus was reached on reductions in the bound levels of NAMA tariffs and on the ability of both developed and developing countries (particularly the latter) to insulate certain product lines from the full extent of tariff reductions. At the close of the Friday session all of the major players (the U.S. EU, Japan, China, Brazil, Australia) except India had signed on to this set of “modalities” (negotiating parameters), and even India announced that it could live with the package as a basis for further negotiations. At the same time, Lamy even brought about some substantial progress in a “signaling session” on services, especially because the United States agreed to consider expanding the limits on work travel to the United States by professional workers.

And then came the bombshell. China, which had until this point been rather quiet in the Round despite repeated urgings by the U.S. that it should take a leadership role among developing countries (moral: Be careful what you ask for; you might get it), announced over the weekend that it had reconsidered its position and now rejected the package. Most of the press coverage has focused on China’s insistence on a longer time to implement agriculture tariff cuts and on a special safeguard mechanism that would permit any developing country to impose restrictions whenever imports of an agricultural product increased by 10 percent. However, China also demanded an extended period during which it could continue to provide subsidies to its “infant” industries.

Kamal Nath of India promptly joined China’s position opposing the consensus package. India and China portrayed themselves as the noble defenders of subsistence farmers in the

developing world. With two of the major trading powers now renouncing the deal that had apparently achieved consensus only hours earlier, the Ministerial was on the brink of collapse.

The U.S. and EU were totally blind-sided by China's turnaround. Even before that, they were having serious trouble with their domestic constituencies. American and European farm groups felt that too much had been conceded and little had been gained in terms of expanded access to developing country markets. And industrial organizations – the U.S. National Association of Manufacturers, for example – were denouncing the NAMA compromise on the ground that it achieved almost no reductions in the tariffs actually applied by developing countries (A word of explanation here about what is known in WTO-speak as “water.” That word refers to the substantial gap that exists for many developing countries between the level at which they have agreed to bind their tariffs and the much lower level at which they are actually imposing duties. The result of the Lamy compromise package would have been a significant reduction in the levels of the bound tariffs, but it would have left the tariff bindings in almost all cases well above the current levels of applied tariffs. This, said NAM and others, not only achieved no new market access but would in fact have resulted in an increase in the actual level of developing country tariffs in any period of economic slowdown.)

For two days the negotiations staggered on, with U.S. and EU efforts focused mostly on the India/China demand for a special agricultural safeguard mechanism. There was a proposal that safeguards would be imposed only upon a showing of injury to domestic farmers. Rejected. It was proposed that the safeguard mechanism be triggered only upon a 40 percent ( not 10 percent) increase in the imports of a product. Rejected. It was urged that such safeguards be limited to some percentage of total agriculture imports. Rejected. By this time, China and India were convinced they had “the moral high ground,” especially in the eyes of the developing nations.

And so Lamy called an end to the Ministerial and an indefinite suspension of the Round, with all parties muttering some version of “So near, and yet so far.”

## II. Some Thoughts on the Doha Debacle

### A. The Real Problems with the WTO Negotiating Process Are Now Much Clearer

In light of the Geneva Ministerial failure, it is now clear that the WTO process for multilateral trade negotiations, as it has evolved through the Kennedy, Tokyo, Uruguay and Doha Rounds, is of questionable continuing viability for several reasons:

#### 1. The “Single Undertaking” and the Consensus Requirement

In both the Uruguay and Doha Rounds, the negotiating Members were required, in the end, to agree to a “single undertaking “ – one unitary agreement to which everyone had to subscribe. Put another way, if all of the 150-plus WTO Members do not agree to a document containing all of the negotiating subjects – agriculture, NAMA, services, rules, trade facilitation, etc. – then nothing is agreed and the Round cannot be concluded.

Now this is not quite as dogmatic as it seems. It is possible – again, if all Members agree to do so – to drop from the “single undertaking” a negotiating area in which consensus (i.e., agreement by everyone) is not possible. Thus, one might envision a Doha “single undertaking” limited to, say, agriculture, NAMA and trade facilitation, dropping services, rules and some other subjects.

But no “single undertaking” agreement could achieve consensus (100% agreement) without both agriculture and NAMA. The developing country agricultural exporters (led by Brazil) and the so-called Cairns Group would not accept a result that failed to include agriculture. And the major developed countries could not agree to a result without substantial NAMA trade liberalization. Even dropping services could prevent consensus on a “single undertaking,” since India, Korea and a handful of other countries – perhaps even the United States – would reject an agreement that contained no liberalization of services trade.

In pre-Uruguay Rounds, the negotiating ground rules allowed some subjects to be agreed only by those Members willing to accept the obligations. Issues such as aircraft trade and government procurement were treated this way. But the only significant issue that even remotely seems amenable to such treatment would be services, and even that is problematic. On the other major issues, consensus of all Members is, as a practical matter, essential if both developed and developing countries are to sign on to a final deal.

## 2. Subsistence Agriculture – the Toughest Sticking Point

The politics of trade in agriculture has always been the biggest hurdle to overcome in multilateral trade negotiations, but the nature of this Round’s agriculture negotiating problem has now become both clearer and different from what we all anticipated.

Everyone has been aware of the U.S. political difficulty in reducing/eliminating trade-distorting forms of government aid to our farmers (more on this later) and in reducing protectionism in a few areas (sugar being the main culprit). Everyone has also been aware of the political sensitivity in the EU toward reductions in their export subsidies and, in particular, toward reducing barriers to access to the EU agricultural markets. Thus it was anticipated that the dynamics of Doha agriculture negotiation would focus primarily on (a) pressure put on the U.S. by the developing countries, the Cairns Group and the EU to reduce trade-distorting farm aid and (b) pressure put on the EU by the developing countries, the Cairns Groups and the U.S. to eliminate agricultural export subsidies<sup>1</sup> and – more importantly – to reduce tariff and quota barriers to the EU’s agricultural markets.

But as the Doha Round unfolded, the position of the developing countries changed and fragmented. To be sure, there was continued vocal pressure on the United States – by the developing countries and the EU – to reduce its trade-distorting forms of aid to farmers.<sup>2</sup> But the

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<sup>1</sup> The EU has agreed in Doha to eliminate agricultural export subsidies by 2013.

<sup>2</sup> World Bank studies show, however, that with the exception of one or two commodities (cotton, for example), developing countries had relatively little to gain from eliminating U.S. farm supports. Indeed, because many LDCs are net agricultural importers interested in lower,

pressure for increased agricultural market access for developing country exporters expanded beyond the EU to join with the United States in urging those developing countries who are substantial net agricultural imports. What happened here is that the major export-oriented developing countries, led by Brazil, woke up to what the U.S. had known all along – that the growth markets and the markets with high import restrictions lay in the developing countries that are substantial net food importers.

In many of these countries, however, protecting their inefficient farmers against imports from the export juggernauts of agriculture – Brazil, the U.S. Argentina, Australia, Canada – was negotiating priority number One. In India, there are over a billion – that’s “billion,” with a “b” – inefficient subsistence farmers. China may have that many or more, and the same problem exists in Bangladesh, Indonesia, sub-Saharan Africa and numerous other LDCs. And if these farmers lose their domestic markets to more-efficient foreign exporters, these countries’ economies have nowhere else for them to find employment.

So here is where the irresistible force – the need of the agricultural exporters to find a negotiating benefit that exists almost entirely in food-importing LDCs – met the immovable object – the political impossibility for many of those LDCs to put their subsistence farmers in jeopardy. At first, this issue focused on LDC demands that a number of sensitive products either be excluded from trade liberalization or be subject to only minor cuts in tariffs and quotas. But in the end, even with fairly extensive lists of such sensitive products sheltered from the negotiated liberalizations, a number of the subsistence-farming countries, led by India and joined by China, demanded a Special Safeguard Mechanism (“SSM”) that would allow them to raise tariffs, not only to pre-Doha levels but even to pre-Uruguay Round levels and perhaps higher, when imports in a designated product category increased by as little as 10 percent. The U.S. Department of Agriculture, applying the proposed SSM to China’s import patterns over recent years, concluded that use of this SSM during that period would have permitted China to place restrictions on over 80 percent of its agricultural imports. The United States, Brazil and other agricultural exporters simply could not accept this.

### 3. Fear of China’s Exports of Manufactured Goods

Today, any discussion of world trade issues must address the impact of the new Big Boy on the Block – China. In the Doha Round’s NAMA negotiations, that impact is profound. It takes two forms:

First, in the major developed countries – the U.S., the EU, Japan, Canada, etc. – the domestic politics of trade focus largely on the perceived loss of jobs “to China,” both in terms of imports from China and in terms of domestic firms’ decisions to relocate production to China. Thus far, the effect of these politics of China trade has been pressure on developed countries’ negotiators to bring back major new market access commitments – mostly relating to developing countries – that will create new jobs by boosting exports.

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not higher, commodity prices, the developing world as a whole would be marginally worse off if all U.S. farm price supports were to be eliminated.

The “China effect” on many developing countries’ negotiating positions, on the other hand, has been to make them reluctant to reduce tariff and quota barriers on manufactured goods. India’s chief negotiator, Kamal Nath, has repeatedly told EU Trade Commissioner Peter Mandelson, “My country is enthusiastic about reducing NAMA access barriers – except for China, of course.”

4. The Fraying at the Edges of the Consensus that, in Trade Liberalization, a Rising Tide Lifts All Boats

The trade liberalization movement that has given impetus to the GATT and, later, the WTO has always accepted as sound economics and as sound development policy the principle that reduction of trade barriers and the consequent expansion of world trade is fundamentally beneficial to both developed and developing countries. Over the past 20 years, however, dissenting voices have grown increasingly louder.

In the U.S. and most other developed countries, the traditional opposition to trade liberalization – labor unions and industries that have lost their international competitiveness – has been augmented by anti-trade and anti-globalization views of a number of Non-Governmental Organizations. Notable among these are some environmental groups and certain groups that see trade liberalization (and, more broadly, the “Washington Consensus” of free-market trade, regulatory and financial policies) as favoring multinational companies at the expense of the farmers and workers in developing countries. [For further discussion of the politics of trade in the United States, see Section IV, below.] The most intense effects of these new opposition elements to date has been on the negotiation and ratification of bilateral and regional free trade agreements (FTAs) and on legislative votes to grant (in the U.S.) Trade Promotion Authority. As yet, there has been little impact on U.S. (or other developed country) negotiating positions in Doha.

But developing country views have also changed, and this change has affected the Doha negotiations. During the Uruguay Round, the great developing country success stories were the “Asian Tigers” – Singapore, Taiwan, Thailand, etc. Their success was widely (and correctly) perceived as the result of free market economics – reducing tariffs and other import barriers, privatization of government-owned industries, deregulation of the business and financial sectors, etc. Today, many developing countries believe in a different development path, with more government intervention, protection and subsidization of infant industries, controls over the financial and currency markets, etc. In part, this is a reflection of China’s success and the success of Brazil, Korea<sup>3</sup> and other “mixed economies.” In part, the NGOs and certain economists have provided intellectual underpinning. And the succession of financial shocks of 1990s and 2000s – the Asian Financial Crisis, the dot-com. and real estate bubbles and subsequent collapses, and the on-going international credit crisis today -- have profoundly weakened the belief of many LDCs in the efficacy of free market economics.

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<sup>3</sup> Ironically, Korea is now moving vigorously to deregulate, to negotiate FTAs, etc. and Brazil is, at least in agriculture, a major proponent in Doha of trade liberalization.

5. The Atrophying of U.S. and EU Business Community Support for Multilateral Trade Liberalization

Until Doha, the most powerful force for multilateral trade liberalization has been the business communities of the United States and Europe. In the Uruguay round, the enthusiastic support of the U.S. agricultural community was also important. Those communities still speak in support of Doha and trade liberalization, but for a number of reasons their zeal and their willingness to bring political pressure to bear have noticeably declined.

Let's begin with the U.S. agriculture community. Today you rarely hear farmers talk about Doha, or indeed about exports. The principal reason is that food prices have gone through the roof as a result of factors that have little to do with trade liberalization. Demand for foodstuff commodities is soaring, due in large part to rising prosperity in the developing world and consequent increased consumption of meat, which in turn greatly increases consumption of corn and grains. Adding to the price surge has been the increasing (and increasingly subsidized) use of food as fuel – notably ethanol and biofuels. In any conference of farmers today, you will hear lots of discussion of ethanol tariffs and subsidies, but rarely a word about opening up export markets.

Business community support has waned for a more complicated set of reasons:

- a. Success and prosperity have taken the edge off the manufacturing community's zeal for trade negotiations. Past MTN Rounds and FTAs have largely eliminated barriers that once stood in the way of U.S. exports to the EU and other developed countries.
- b. The developing world, where growth is strong and barriers are high, is the logical target for further liberalization. But the focus in Doha on "development," together with the consistent failure of developing countries to be forthcoming with liberalization offers during the early years of the Round, naturally has made businessmen pessimistic.
- c. To most businessmen, FTAs seem to pose more obvious opportunities than the Doha Round – specific, tangible opportunities in a specific country, tariffs to be reduced to zero, coverage of a broader range of issues, etc.
- d. In many (but by no means all) industries, the paradigm of participation in foreign markets is no longer exporting to that market from U.S. production, but rather investing in production in the foreign country.
- e. Finally, while the Bush Administration sincerely believes in the WTO and in Doha, and says all the right things about trade liberalization, the almost-universal perception is that any number of issues – geopolitics, conservative Supreme Court justices, etc. –

have higher priority than trade. Like other elements of the body politic, the business community needs leadership, especially on an issue like trade negotiations, where the impact on one's own business is not clear and immediate.

### III. Where Do We Go From Here?

#### A. Is Doha Dead and Gone?

Some years ago, an episode of the television series LA Law featured a young lawyer who, afflicted with terminal, incurable cancer, decided to go to a cryogenics company that would freeze her body until a cure could be found for the disease. Unfortunately, she could not afford the full cryogenic treatment, so she opted for the less costly procedure, which involved freezing only her head.

Doha's current predicament resembles that LA Law episode, but with somewhat better prospects for eventual resurrection. As this program is being held (September, 2008), meetings have begun in Geneva at the sub-ministerial level in an effort to bridge the remaining gaps on agricultural issues. After some weeks or months delay,<sup>4</sup> similar working discussions will begin in the NAMA sector. This is all well and good. The track record of MTN Rounds is that 98 percent of real progress is made in this working group process, and a showy ministerial is useful, if at all, to bring the deal to a close by resolving that last 2 percent of the issues. We are not yet at the 98 percent milepost.

Whatever progress is made in the working groups, the Round won't get completed in 2008, and almost certainly not in 2009 either. Even when you have resolved all the big issues of principle, it takes at least another six months to cobble together all the schedules and deal with myriad specific problems. That means the Round process is going to run into 2009 and will become the project of the next U.S. Administration. But that Administration, whether Democratic or Republican, is unlikely to have its international trade team in place until mid-year, and then it will be several more months to get on top of the Round issues and politics. Thus, while conclusion of a Round Agreement is conceivable in late 2009, the greater likelihood is that conclusion of negotiations will not occur until 2010 at the earliest.

Given that likely timetable, what are the chances that a Round Agreement can be successfully negotiated? Recognizing that one enters dangerous territory when one puts aside law books and picks up a crystal ball, I would nevertheless venture to guess that prospects for reaching a Doha Round Agreement are pretty good. The more difficult question is whether the Agreement that is reachable will be worth much, and whether it can be successfully ratified by the U.S. and the European Union.

Once we reach mid-2009, we will have a new U.S. administration and a new regime in India. The change in India's government won't help. Any successor to Prime Minister

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<sup>4</sup> Delay is necessitated by the fact that Mr. Stephenson, chair of the NAMA talks, has resigned and must be replaced.

Manmohan Singh is likely to be less inclined to make trade concessions in general and more protective of India's subsistence farmers in particular.

But a new U.S. administration, if the Democrats win the election, would create a dynamic conducive to reaching an agreement of the "Let's settle for pretty much what is now on the table" variety. As discussed in more detail in Section IV, below, the Obama campaign has drawn a distinction between FTAs, of which his campaign is skeptical and wishes to impose all sorts of new trade, environment and worker rights provisions, and the Doha Round, which Obama supports because it presents little threat of increasing imports into the United States. Bringing Doha to a "successful" conclusion, even with a minimalist agreement, would be proclaimed as a triumph for the new Administration. Moreover, given substantial Democratic majorities in both Houses of Congress, trade promotion authority could probably be passed for the limited purpose of ratifying the Doha Agreement, and – although this would be the harder part – the Agreement could probably be ratified.

Ironically, the prospects for Doha success would be diminished by the election of McCain, even though he is clearly more ideologically committed to trade liberalization. This is true for two reasons. First, a McCain Administration would be more aggressive in demanding greater access to developing countries' agricultural and manufactured goods markets. This would run head-on into the India-China concern for their subsistence farmers and the desire of many LDCs to protect their "infant" industries. This could well prove impractical to negotiate.

Second, a McCain Administration dealing with a Democratic-controlled Congress would face criticisms that would not likely be leveled at a deal negotiated by an Obama Administration. As noted earlier, both the U.S. agricultural community and the U.S. business community are quite unsatisfied with the current state of the negotiations on the ground that U.S. farmers and manufacturers are not getting much in the way of new access to foreign markets. In the hands of a Democratic Congress, such concerns would translate into demands that the Administration press for access commitments unacceptable to developing countries. Such concerns could also prevent passage of the new trade promotion authority needed to ratify any Doha Agreement.

A final point. If agreement on the basic elements of a Doha deal is not reached this year (as now appears very likely to be the case), and if we experience some 18 months of relative negotiating inactivity, the dominant mood of most WTO Members when negotiations resume in earnest in late 2009 is likely to be "Let's get this damned thing over with, even if we can't improve the Agreement much beyond what is already on the table." As Senator George Aiken said when he was asked how we should bring the Vietnam War to a "successful" conclusion: "That's easy. We just declare victory and leave!"

B. Given the Gloomy Doha Prospects, How Can the Trading System Pursue Further Liberalization?

If the process of multilateral trade liberalization is bogging down, as this paper suggests, serious problems are posed for U.S. trade policy, for several reasons:

1. The Stalling Out of Multilateral Trade Liberalization Comes at a Bad Time for U.S. Industries and Farmers

The growing markets on which U.S. industries and farmers will increasingly depend are in the developing world. These are the countries with the high growth rates, compared to slow growth and – in today’s climate – stagnation in developing countries. Note, in this regard, that it is exports – not domestic consumption – that has kept U.S. GDP growing over the past 18 months. But if access for U.S. exports to these growing markets is limited by tariffs and quotas, U.S. agriculture will suffer and the incentive for U.S. industries will be to serve these growing markets by shifting production abroad.

There is also a compelling need for continued trade liberalization to offset a major new factor – the new reality of greatly increased energy costs – that will increasingly inhibit trade. It is often overlooked that trade depends on transportation of goods. The recent sharp increase in energy costs has made such transportation dramatically more expensive. This is, in effect, a tax on trade that needs to be offset by continued reduction in tariffs and in non-tariff barriers.

2. An Effective Trade Liberalization Process Is Essential To Deal with the Likelihood of Protectionist Measures Related to Control of Greenhouse Gas Emissions

It is almost universally acknowledged that the great global policy issue that will preoccupy legislators and regulators in all major countries – particularly the developed countries – is the need to adopt measures to limit greenhouse gas emissions. This global warming issue is perhaps the greatest international challenge of our era.

What is not so widely recognized is the potential for the enactment of protectionist measures to “level the playing field” for developed country industries whose competitiveness with Chinese, Indian and other producers is adversely affected by the costs imposed by the measures taken to limit greenhouse gases. Absent an effective and binding international agreement on climate control measures – a prospect that seems unlikely in the near term – the prospect is that China, India, Brazil and other developing countries will resist imposing on their industries the level of climate control burden adopted by the U.S., Europe, Canada, Japan, etc. Whether the mechanism for controlling greenhouse gases is taxation of emissions, a “cap and trade” system or simply regulation that limits emissions, industries in developing countries will find themselves shouldering major new costs that reduce their competitiveness with the rapidly-growing industries in the major developing countries.

This competitive effect will inevitably generate demands for border measures – whether they be called tariffs or environmental taxes – that “offset” the failure of developing country governments to impose such environmental costs on their industries. As recent developments in trade politics make clear, industries that lack competitiveness even apart from the emissions regulation costs will join in and perhaps lead the chorus demanding import restrictions to “level the playing field.” Much of the labor movement will join in this protectionist effort – a significant factor in the context of a U.S. Democratic Administration and/or Congress.

These pressures to “level the playing field” will not be unique to the United States. Lobbying to this purpose is already under way by industry groups in Canada, the EU and probably elsewhere. In the face of such pressures in numerous countries, there is a need for international action to control such measures. Today, the WTO is the only vehicle for such regulation. But the inability to conclude Doha bodes ill for the far more contentious issues arising from regulation of greenhouse gases – especially because the issue pits developing country interests against those of developed countries.

This problem is beginning to seep into the consciousnesses of trade policymakers. Charlene Barshefsky, USTR in the Clinton Administration and one of the bolder thinkers on trade issues, has suggested the creation of a WTO for the Environment. But time is running short on this, as on all issues related to global warming.

### 3. What Are the Options for Pursuing Further Trade Liberalization?

With Doha on the rocks, trade policymakers in the United States and elsewhere are considering a wide range of options for reviving the global movement for trade liberalization. Such options range from the prosaic to ideas best characterized as “Rube Goldberg does trade liberalization”:

“Picking the Low-Hanging Fruit” in Doha. If Doha were to fall apart, or even if it stagnates for an extended period, it is the view of many observers that some peripheral, but quite valuable, areas in which agreement has essentially already been reached should be stripped from the negotiations and packaged as a “mini-Doha.” The most frequently discussed Doha component is little-known but quite important – Trade Facilitation. This covers the “nuts and bolts” issue of the procedures and documents necessary to move goods across borders. In Singapore, a container of goods can enter the country in four to six days, with five required documents to be executed and only two government agencies to satisfy. In sub-Saharan Africa countries, entry of goods takes 2-3 months, the execution of some 35 documents, inspections by numerous government agencies and the making of perhaps a dozen “facilitation payments” (translation: bribes) to port and transport officials. The Doha Trade Facilitation Agreement would set standards, enumerate “best practices” and establish transparency requirements. For some industries, nothing in Doha is more important. Other “low hanging fruit” include tariff-free, quota-free treatment of all non-military imports from the least-developed countries and the elimination of agricultural export subsidies. The latter, of course, is entwined with the quid pro quos of the agriculture negotiations, and its separation from Doha could affect other aspects of those negotiations.

Free Trade Agreements. As Doha has sputtered and stumbled, the world has gone FTA-crazy. Canada’s governing party has established the negotiation of FTAs as the central element of that country’s trade policy. Korea, the EU and a number of other countries have multiple FTAs under negotiation. Unfortunately, the United States is effectively road blocked from joining the FTA bandwagon, both because we have no Trade Promotion Authority and the current rhetoric of the Democratic Party is – to say the least – skeptical of FTAs, especially those with developing countries.

Locking Up Raw Material Supplies. Another trend, which has gotten less notice, is the increasing use by wealthy nations of agreements with developing countries to lock up raw material supplies. China has been quietly negotiating such deals with a number of African countries for oil and minerals. China, along with Korea and several Middle East nations, is making investments in agricultural land to secure food supplies (a phenomenon that has contributed to soaring world food prices over the past two years). Some observers see this sort of activity as highly problematic for the world trading system.

Regional Economic Integration. For those of us who have long supported the multilateral approach to trade liberalization, one of the most disturbing phenomenon is the growing trend toward “balkanization” of trade through regional trade and economic arrangements. Of course, the U.S. and Europe set the pattern for all of this, with NAFTA and the European Union. But the proliferation of new regional groupings is a cause for real concern, both in trade and geopolitics:

- The European Union has expanded eastward to absorb much of the former USSR. Now, led by Sarkozy’s France, a Mediterranean Economic Trade Area (META or, jocularly, “Club Med”) is forming.
- Expansion of NAFTA to South America has been effectively blocked by Brazil-led MERCOSUR, which in turn is seeking to negotiate an FTA with the EU.
- Asia and the Pacific Region are becoming a true “spaghetti bowl” of overlapping and conflicting regional groupings: APEC (in which the US is a member) and ASEAN (in which the US is not) are both designed in part as a response to the economic dominance of China. The Trans Pacific Economic Partnership, or “P4”, is an odd conjoining of New Zealand, Singapore, Chile and Brunei. Of growing influence is the Shanghai Cooperation Organization, led by Russia and China and including a number of the South Asian “Stans”.

For those who believe in global trading rules and the multilateral movement for trade liberalization, all of this is more than a bit disturbing. For businessmen, it makes life more complicated, with differing regulations and a morass of often-contradictory rules of origin adding to the costs of doing business.

### C. What Can the United States Do ?

Hampered by an absence of trade negotiating authority, a public shown by the polls to be increasingly skeptical of trade and globalization, and an economy beset by a housing collapse, a credit crisis and a likely recession, U.S. trade policymakers are facing challenges of a high order. Some of the ideas under consideration include:

#### 1. Extending U.S. FTA Negotiations

Since NAFTA, the Free Trade Agreements negotiated by the United States have – until the major FTA with Korea – been a motley collection of agreements, many with countries of little trade significance, with no discernible geographic pattern. There is some sign that this will

continue, with preliminary discussions now under way with Malaysia and the above-mentioned P4.

There are, however, intra-administration discussions about possible initiation of really significant FTA negotiations – with Japan, India and even China. Needless to say, such initiatives would require very ambitious political leadership. The difficulties now being experienced with ratification of the Korean FTA – where an agreement with major benefits to the United States is held hostage to the concerns of one company in one industry (Ford) – must give serious pause to anyone considering negotiations with any of the major Asian trading powers.<sup>5</sup>

## 2. Closer Trade Relations with Europe

From time to time, you will hear mention of a possible US-EU FTA. Don't believe it. Numerous governmental and private sector efforts to create closer trade and economic cooperation have foundered on fundamental differences in the approaches of the two great Western trading powers – in regulatory policy, in competition policy and in the role of government in economic affairs.

Having said this, there may be limited areas in which US-EU ties can be strengthened. Former USTR Charlene Barshefsky, for example, believes that a Transatlantic FTA on Trade in Services could be achievable.

## 3. Major Sectoral Agreements

In the post-Uruguay Round period, the major multilateral negotiating success was the Agreement on Trade in Information Technology. This could be the model for sectoral agreements that would remove barriers and establish trading rules in such sectors as environmental technology and equipment, e-commerce, pharmaceuticals and some service sectors.

## 4. Moving from Multilateralism to Plurilateralism

Prior to the Uruguay Round, a number of international codes were negotiated – antidumping, aircraft trade, government procurement, etc. – on the basis that the benefits and obligations would not be universal, but rather would apply only to those countries that agreed to sign that particular code. Once the code was established, any other country could sign on, provided only that they agreed to accept the obligations of that code.

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<sup>5</sup> Nevertheless, hope springs eternal in consideration of U.S.-Asia relations. My personal favorite “Rube Goldberg” trade policy proposal is the idea of the noted economist C. Fred Bergsten. He argues that the current “G-8” group of major economic powers should be reduced to a “G-2” – the United States and China. These two superpowers would decide the course of world trade and economic policy and then the U.S. would bring along “our friends” (The EU, Canada, Australia, Brazil, Mexico) and China would bring along “their friends” (including Russia and India). Words fail me.

This plurilateral approach is the subject of serious consideration in the corridors of the Office of the U.S. Trade Representative and the Departments of Treasury and State. Unlike the plurilateral GATT codes that were limited to specific subjects, however, this would be a broad plurilateral agreement, encompassing either the full range of trade issues or everything except agriculture. The thinkers who are wrestling with this concept see two routes to such a plurilateral deal:<sup>6</sup>

First, in the event Doha collapses, a group of countries led by the U.S., the EU and at least one or two of the major developing countries ( most probably Brazil) would organize a group, of as many countries as would be willing, to carry forward the Doha negotiation to conclusion, a process made easier by the absence of countries who were major roadblocks in the Round. When an agreement was reached, it would be signed by all countries willing to do so. From then on, any other nations could sign on, provided they were willing to assume the agreement's obligations.

Second, and more in favor because more ambitious, the United States could "harmonize" the provisions of all its existing FTAs. (A major aspect of this effort would be to develop a single set of rules of origin applicable to all of the agreements). In this manner, a single Free Trade Area would be created, consisting of the United States and all its FTA partners. All other nations would be invited to join this Free Trade Area by agreeing to accept the terms of a unified plurilateral Free Trade Agreement.

This concept – particularly the second approach, which involves zero tariffs on trade among all members – is indeed ambitious. One reservation some of the planners have, however, is that this might well be seen in the developing world as creating a "rich man's club," with developing countries largely left on the outside looking in. For this reason, the planners emphasize the importance of including in the Free Trade Area at least some of the major developing nations.

#### IV. Election 2008 – The Politics of Trade

There has never been a U.S. presidential election in which international trade issues have been a major factor in determining the outcome. However, the importance of trade to certain industries concentrated in certain states – e.g., the auto industry in Michigan – can influence the candidates to take public positions which will later affect – but not entirely control – their trade policies once in office. This election is an example of that phenomenon, especially in the case of Barack Obama.

##### A. Barack Obama

During the Democratic primaries, Obama spent the early months proclaiming himself to be an internationalist. He viewed globalization not only as inevitable, but something that is – on balance – good for the United States.

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<sup>6</sup> For obvious reasons, proponents of this idea are carefully avoiding the phrase "Coalition of the Willing."

Initially, his principle trade policy themes were:

- Increased aid for U.S. workers whose employers could not compete with imports and/or shifted production overseas. Obama advocates expansion of Trade Adjustment Assistance, worker retraining programs, health care tax credits, etc.
- To create jobs for laid-off blue collar workers, he advocates major public works spending on roads, bridges, harbors, etc.
- More funds for enforcement of trade agreements. WTO agreement cases to be brought more frequently to get access to foreign markets.
- Intensified negotiations with China to correct currency manipulation, protect U.S. firms' IP rights and eliminate subsidies. Trade cases to be used in support of such negotiations.
- Support for Doha Round and criticism of Bush Administration "failure" to bring it to conclusion.

Then came the Michigan primary, in which Hilary Clinton launched a fierce attack on NAFTA. Obama, although not participating in the primary, began to utter his own, somewhat more mild NAFTA criticisms. By the time of the Ohio and Pennsylvania primaries, he was promising to "reopen" NAFTA to renegotiate provisions on the environment and worker rights. He also announced that he opposes ratification of the Colombia and Korea FTAs "in their present form."

On balance, Obama is almost certainly not a doctrinaire protectionist. His expressed views on free trade agreements are his strongest anti-trade views, but they will not prevent him from pursuing future negotiations or even from ratifying the Colombia and Korea FTAs, albeit with modifications so that he can contend that he kept faith with the unions.

Obama's most significant trade policy innovation would probably come on the tax front. He has repeatedly condemned "tax breaks for U.S. companies that shift production overseas." The current provisions relating to tax treatment of foreign-source income are likely to be his main legislative target.

All of Obama's major trade and economic advisors – Jason Furman of Brookings, Dan Tarullo of Georgetown Law and Austan Goolsbee of University of Chicago – are solidly internationalist, free market trade liberalizers. Tarullo, during his tenure in the Clinton Administration, was a key player in NAFTA's ratification.

B. John McCain

McCain, who admits that economics “is not my long suit,” nevertheless is an ideologically pure free trader. He will vigorously condemn Obama’s stance on renegotiating NAFTA and his stance on FTAs.

McCain also disagrees with Obama’s threats to attack China’s currency policy. But McCain does favor pressuring China on IP protection, on subsidies and on food and product safety.

In 2004, McCain voted against extending Trade Adjustment Assistance to service and high tech workers. But he has announced plans to put part of each worker’s unemployment insurance taxes into a “lost-earnings buffer account” and to enhance worker retraining.

McCain enthusiastically supports both the WTO and FTAs. He has even urged FTA negotiations with the EU.

He is not a hawk on the China currency issue. In agriculture, McCain has promised to end all tariffs and most farm subsidies.

C. Trade and Greenhouse Gases

The biggest trade issue that will arise early in the new Administration, and the one on which Obama and McCain would take sharply different positions, is the trade impact of new climate change legislation.

Obama will move expeditiously to regulate greenhouse gases, most likely with a “cap & trade” system. While he has not yet taken a position on the trade consequences of such legislation, his economic and social philosophy makes it likely that he will seek ways to “level the playing field” by imposing some form of tax on imports.

McCain, on the other hand, will be more cautious in regulating emissions and will almost certainly not impose compensating charges on imports.