

Final Days for Trade Agenda

■ Trade Representative Susan Schwab tries to salvage President Bush's trade legacy with an 11th-hour whirlwind effort.

By Bruce Stokes

After pursuing a trade agenda of unparalleled ambition, President Bush will leave office having consummated a large number of relatively small trade deals. The big agreements that were to be the capstone of Bush's tenure have eluded him. And he leaves the nation and Washington more divided on trade issues than ever.

These shortcomings have many fathers. The Doha Round of multilateral trade negotiations was probably ill-conceived at the outset and is now dead in the water largely because of Indian and Chinese inflexibility. The Democratic leadership in Congress has stonewalled the Colombia free-trade agreement. And the South Korea free-trade agreement is a casualty of protests by South Korean farmers and opposition from the U.S. auto industry.

Whoever is to blame, the Bush administration is not yet ready to declare defeat. Over the next few weeks, U.S. trade offi-

cial will test the willingness of New Delhi and Beijing to revive the Doha talks. And the administration will continue to push Congress to act on the Colombia and South Korea deals before the end of the year. Prospects on all three fronts, however, remain dim.

"They are the lamest of lame ducks," said a Democratic congressional aide, arguing that doing nothing on trade is the best course left for Bush. "They should leave things to the next administration. It is not their place to lock the next president into a path."

Not so, a Republican trade expert retorted. "What they could do," he said, "is sow the seeds now that would allow a President McCain or President Obama to have the political space to do something" next year.

Bush administration officials defend their record, noting they have signed an unprecedented number of trade agreements, including deals with Australia and the nations of Central America. And U.S.

exports to these free-trade partners have grown faster than American exports overall. But the deals have alienated some voters. Americans' support for free trade has fallen 25 percentage points since Bush took office, from 78 percent to 53 percent. Bipartisan backing for trade deals has reached a modern low on Capitol Hill, too. And the administration's strategic game plan—to use small trade deals as leverage to secure more economically meaningful big deals—hasn't worked.

Nevertheless, U.S. Trade Representative Susan Schwab, who inherited this trade strategy and the partisan rancor when she took office in 2006, receives generally high marks. Her early career experience as a junior trade negotiator and an influential Senate trade aide has served her well. And lobbyists say that her recent neutralizing of congressional concerns on tricky farm and immigration issues in the Doha Round was masterful.

Schwab is certainly not acting like a lame duck. She will spend half of her remaining days in office on the road, meeting with her Asian and Western Hemisphere counterparts. The goal is not necessarily to revive the Doha Round, but a resurrection will obviously be part of the discussion.

Although the Doha talks collapsed in July at a meeting of the World Trade Organization in Geneva, Schwab told *National Journal* in a recent interview, "We surprised ourselves in how close we came to an agricultural and manufacturing deal, things that had been intractable for years."

She said: "The single most important thing may have been that key emerging economies were at the decision-making table in July and that the breakdown was not a North-South breakdown. It was a breakdown on the basis of perceived economic and commercial interests. There were differences between and among developed countries and between and among developing countries. And you started to see some of the developing countries air their differences with some of the other developing countries."

But the talks did break down. And Schwab acknowledged, "We can't freeze-frame what happened. It has already unraveled."

■ Susan Schwab



RICHARD A. BLOOM

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To see if Humpty Dumpty can be put back together again, senior trade officials will meet at the WTO this month. “The most serious problem is, we don’t have a process” in place, Schwab said. “We don’t know how to move forward.” So the first task will be to sort out what all parties expect.

Much depends on India. With Indian elections due by May 2009, it is widely believed that Commerce and Industry Minister Kamal Nath’s intransigence in July reflected the ruling Congress Party’s political weakness and Nath’s own ambitions to position himself to be chief minister of his home state, Madhya Pradesh. Many observers in Washington and Geneva believe that New Delhi will not negotiate in good faith before its elections in the spring.

China’s behavior in July only complicated matters. Chinese negotiators backed Indian resistance after initially appearing to be ready to make a deal. This flip-flopping by Beijing has trade experts perplexed.

“It was their first time as players in the small room,” said one WTO observer. “They were clumsy. And they overplayed their hand. And their negotiators did not seem empowered to act.”

Optimists believe that China, as a major exporter, has such a big stake in the multilateral trading system that it will never want to be blamed for killing the negotiations and will eventually cut a deal. Pessimists think that China regrets some of the commitments it was forced to make when it joined the WTO in 2001; would like to roll back these reforms or, at least, make no new ones; and, given current global economic uncertainty, would be happy to see the Doha Round drag on.

The initial discussions this month will focus on nailing down what was actually agreed to in July, before the breakdown, with regard to cutting farm subsidies and opening agricultural markets. But the main challenge is to resolve differences over what China, India, and other emerging-market countries can do to protect themselves against floods of commodity imports that could hurt their farmers. Beijing and New Delhi want even small surges in imports to trigger controls. Washington wants the bar to be set higher.

There is now general consensus in the WTO on how much tariffs on manufactured goods can be cut. But Argentina,

■ WTO Impasse in Geneva



■ World Trade Organization Director General Pascal Lamy (left) speaks with Indian trade minister Kamal Nath at July meetings that ended in deadlock.

South Africa, and Venezuela are still asking for exemptions for particular products. U.S. manufacturers, however, say that such exemptions could seriously erode American export opportunities.

More important, U.S. companies say that the greatest benefit they can achieve from the current negotiations is to completely eliminate tariffs on products such as chemicals, electrical machinery, and medical technologies, which the United States can produce quite competitively. For such an initiative to succeed, large emerging economies, such as Brazil, China, and India, would have to participate in the tariff elimination.

Schwab thought she had that commitment in Geneva. But a WTO report issued in August did not obligate such nations to participate. That is a nonstarter for the United States. And even if this disagreement gets resolved, plenty of dickering will be required to decide what products are included in sector-specific deals and whether new generations of old technologies are covered.

Meanwhile, negotiations over the trade in services reached a milestone in July when, for the first time, several countries showed their cards.

“At the end of the day, the conference was better than expected but not sufficient,” said Robert Vastine, president of

the U.S. Coalition of Service Industries. “There is still not enough there to conclude the round. The U.S. service community wants more and better offers. It wouldn’t take long to do that, if there is political will.” Another round of services talks tentatively scheduled for mid-October is now on hold, however.

Ultimately, whether the agricultural, manufacturing, and services negotiations can be put back on track depends on what Brazil, China, and India are prepared to give up. “A trade negotiation is not a foreign-aid pledging conference,” complained Frank Vargo, vice president for international economic affairs at the National Association of Manufacturers.

“The core question of the round,” Schwab said, “both in terms of the economic outcome and of the institution of multilateral trade negotiations going forward is, what is the contribution that the emerging markets are prepared to make to the trading system and to the development objective by opening their markets further to each other and to the other 80 developing countries in the WTO who are not at that level of development.”

If negotiators can demonstrate progress by resolving some differences and possibly produce new texts by the end of the year, then, said Jeffrey Schott, a senior fellow at the Peterson Institute for Inter-

national Economics in Washington, “the exercise can be regarded as a positive one and worth investing in by the next administration.”

If Doha is the biggest unfinished item on the Bush trade agenda, the Colombia free-trade agreement is the most controversial.

From the U.S. standpoint, the deal is an economic plus. Colombia already has largely duty-free access to the U.S. market, thanks to an existing trade agreement. The proposed free-trade accord would give U.S. exporters similar duty-free access to the Colombian market.

Opposition to the deal comes from organized labor, human-rights groups, and liberal Democrats who are critical of the number of union activists killed each year in Colombia. The death toll had been declining sharply, but it rose again recently, placing the administration in the awkward position of defending relative levels of violence. White House arguments that Washington needs to reward Bogota for its efforts to curtail drug production have largely fallen on deaf ears on Capitol Hill.

But the real obstacle to progress is the looming U.S. election. The Democratic leadership in Congress is unlikely to allow a pre-election vote on a trade deal that its presidential candidate, Barack Obama, and organized labor oppose. And after John McCain’s July whistle-stop visit to Colombia, his campaign now uses the trip as a symbol of his devotion to free trade, and that further politicizes the issue.

But the Bush administration continues to push for a vote. “Whoever is the next president of the United States should want us to get it done this year,” Schwab said. And some in the business community hold out hope for action during a lame-duck congressional session after the election. “My degree of expectation is declining,” a trade lobbyist acknowledged, “but there is still a slight possibility, especially if Obama is elected, that there will be a recalibration in Congress to move forward,” if only to get this divisive issue off the next president’s agenda.

Most observers see this as wishful thinking. But opponents of the agreement say that the Colombians could do things to tee up the pact for a future vote: increase the number of prosecutors who enforce

Colombian labor law, enhance the transparency of those prosecutions, and convict more Colombians for murder instead of lesser crimes.

“If we really put our mind to it,” said a Democratic congressional trade aide, “our Justice Department could work with the Colombians to develop an action plan.” U.S. business lobbyists acknowledge that such an effort would be moderately useful to clear away the underbrush. But they worry that Democrats and organized labor will only pocket such concessions and ask for more.

Ironically, Congress could still approve the free-trade agreement with Panama this year. Congressional consideration has

ers’ opposition to the accord has made many Americans wary of Seoul’s ability to deliver genuine market openings. The recent downturn in the U.S. auto industry has strengthened the resolve of Ford and Chrysler to gain greater access to the South Korean market or at least not risk greater competition from South Korean imports. Many in the U.S. business community think that the administration has given up on congressional action this year. And South Korean officials privately say they see no hope of progress in the short run.

But conditions could change. American beef is now going to South Korea. If that continues, trust will build that U.S. beef is

■ No to U.S. Beef



■ South Korean farmers conduct a candlelight vigil in May against the resumption of U.S. beef imports in Seoul. They oppose a free-trade deal.

been on hold because the leader of the Panamanian national assembly is wanted for murder in the United States. He has now stepped down, ostensibly removing the main barrier to action in Congress. Other complaints about the agreement could yet emerge. But the Bush administration refuses to send the deal to Capitol Hill, apparently to deny the Democratic Congress a chance to shed its protectionist image by voting for a trade deal.

The South Korea free-trade agreement, which has far greater economic potential than any such deal since NAFTA, shows few signs of life. South Korean beef farm-

free of mad-cow disease. U.S. automakers, meanwhile, are angling for \$25 billion in additional government loan guarantees, which gives the administration bargaining leverage if it chooses to use it for the South Korea deal. But the clock may have already run out on congressional action this year.

After an auspicious beginning, the Bush trade legacy is ending on a sour note. The unfinished agenda is long, complicated, and political divisive. And it may take the next president years to untangle. ■

bstokes@nationaljournal.com