

Bush Trade Strategy Backfires as Chances of Global Pact Recede

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President George W. Bush's strategy of using individual accords as stepping stones to a unified, global system of trade may be backfiring.

The bilateral pacts have increased pressure on Canada, China and Europe to seek their own separate deals at the expense of a new World Trade Organization accord, economists and lawmakers say. The result is a series of conflicting agreements that may do more harm than good, they say.

“These things are complicating the world trading system and filling it full of holes,” said Jagdish Bhagwati, an economist at Columbia University in New York and a member of an eight- person WTO advisory panel. “This is not putting pressure on the multilateral effort; in fact, it's detracting from it.”

Lawmakers yesterday pressed Susan Schwab, Bush's nominee to be U.S. trade representative, during her Senate Finance Committee confirmation hearing about the effectiveness of U.S. policy.

“One of my concerns is that unilateral preference programs serve as an obstacle to advancing the negotiations” in the WTO, the committee chairman, Senator Charles Grassley, an Iowa Republican, told Schwab.

Representative Benjamin Cardin, the ranking Democrat on the House Ways and Means trade subcommittee, agreed. “We might have been applying so much attention to bilaterals that we've lost the support of our traditional trading partners,” such as Europe, Cardin said in an interview.

‘Competitive Liberalization’

Since taking office in 2001, Bush has been pursuing a strategy that former U.S. Trade Representative Robert Zoellick, now deputy secretary of State, termed “competitive liberalization.”

The idea, Zoellick told Congress in 2004, was to take a bilateral accord such as one with Chile, build a larger pact like the hemisphere-wide Free Trade Area of the Americas, and then pressure other countries to agree to tariff and subsidy cuts under the global umbrella of the so-called Doha Round of the WTO.

Columbia's Joseph Stiglitz, winner of the 2001 Nobel Prize in economics, said the strategy is "not a good way toward a multilateral pact; it's very corrosive to that end." Because of so many different agreements with different rules and rates, he said, "the administrative cost of the deals ends up being as high as the tariffs they were designed to lower."

Zoellick's successor, Rob Portman, renamed the policy "complementary liberalization" and said carrying it out, while challenging, was achievable. Schwab, 51, would replace Portman, chosen by Bush to head the Office of Management and Budget. In her hearing yesterday, Schwab said she would stick to her predecessors' path.

'Parallel Effort'

"This parallel effort will also help to establish the breadth and scope of potential multilateral agreements in years to come by setting precedents and by demonstrating the real benefits of free and fair trade," Schwab told senators.

The Bush administration has implemented trade agreements with eight countries so far; it needs Congress to approve three others and is negotiating nine more. Talks toward accords with South Korea and Malaysia are scheduled to start next month.

"Those are deals that are worth doing whether there is a Doha negotiation or not," Deputy U.S. Trade Representative Karan Bhatia said in an interview. "Pushing forward with bilateral liberalization does prompt others who might not be part of them to think about whether they would not be well served by being more aggressive in the multilateral round."

Nafta's Impact

Still, none of those agreements come close to approaching the impact of the 1994 North American Free Trade Agreement encompassing the U.S., Canada and Mexico, which affected more than a third of U.S. exports. The bilateral accords implemented since 2001 -- with Australia, Chile, El Salvador, Honduras, Jordan, Morocco, Nicaragua and Singapore -- together account for less than 4 percent of U.S. exports.

That limited level of economic significance is a major reason why Bush hasn't been able to translate those agreements into support domestically for broader regional or global accords as he had planned, said Bernard Hoekman, the research manager for trade at the World Bank in Washington.

"So far, they have been negotiating with countries that aren't major players," Hoekman said.

Clayton Yeutter, who served as U.S. trade representative during President Ronald Reagan's second term, agreed. "These small bilaterals have very little impact on the WTO," Yeutter said in an interview. "They can add to trade liberalization, but at a price."

Worst of All Worlds

That price is starting to become more evident, said Claude Barfield, a resident scholar at the American Enterprise Institute in Washington and former consultant to the U.S. trade office. "You may end up in the worst of all possible worlds," he said. "A world made up of bilateral agreements, with multiple sets of rules and tariff rates and market fragmentation, is much less efficient."

Many poor countries don't want to dilute their access to U.S. or EU markets that they've gained through bilateral deals or preference programs, said Robert Vastine, president of the Coalition of Service Industries in Washington, which represents companies such as AT&T Inc. and Citigroup Inc.

"These countries don't want their neighbors to get something they already have," Vastine said.

It isn't just poor nations that share the sentiment. After the U.S. completed negotiations for Vietnam's entry into the WTO, U.S. textile producers warned that opening the market to more Vietnamese clothing would undercut the benefits of the Central American Free Trade Agreement approved last year.

'Precious Benefits'

"This industry did not fight so hard last year to provide the critical votes for the Cafta, only to see those precious benefits given away to Vietnam," said Jim Chesnutt, chairman of the National Council of Textile Organizations in Washington.

Negotiators from the 149 members of the WTO have missed every deadline they set for themselves since the Doha Round began in 2001. A deadline to set the framework for the deal passed without an agreement at the end of April, and analysts such as Jeffrey Schott of the Washington-based Institute for International Economics say it is unlikely they will be able to wrap up the talks by the deadline of the end of this year.

Additionally, by focusing on small trade pacts, Bush has sapped support in Congress by overloading lawmakers with trade votes, said Doug Irwin, a historian and economics professor at Dartmouth College in Hanover, New Hampshire.

"They've used up a lot of political capital trying to get these things through for very little payoff," Irwin said.

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