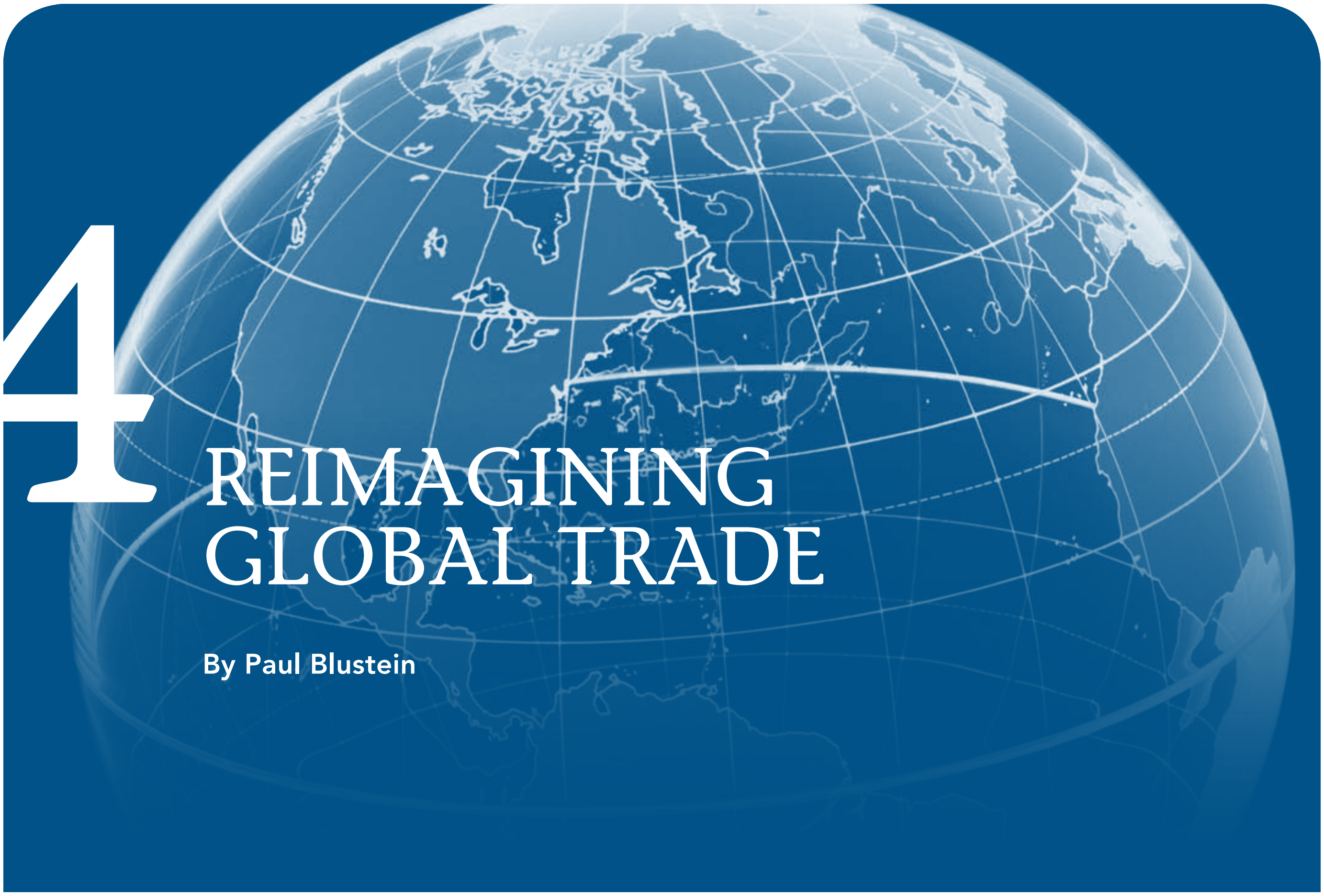

4 REIMAGINING GLOBAL TRADE

By Paul Blustein

By some measures, U.S. trade policy has been a blizzard of activity and achievement during George W. Bush's administration. In 2001, the United States played a crucial role in launching the Doha Round of global trade talks. In 2002, the White House won congressional authority to negotiate new trade agreements. And in subsequent years, Washington has secured bilateral free trade accords with numerous countries, including Chile, Singapore, Jordan, Australia, Morocco, Oman, Bahrain, five Central American nations and the Dominican Republic. Negotiations for free trade agreements with three other countries—Colombia, South Korea and Panama—have been completed by the administration but are tied up in Congress. However, these initiatives have produced very limited benefits, and they have left the global trading system in an increasingly parlous state for the next president and his trade representative.

Since the collapse in July 2008 of the latest effort to reach a Doha Round agreement, there have seemed scant prospects that a deal will materialize anytime soon—and certainly not one that fulfills the initial promise of providing massive trade advantages for developing countries. Another cherished goal of the Bush White House, the creation of a Free Trade Area of the Americas, has been stalled since 2003. As for the bilaterals, the countries with which the Bush team struck agreements are relatively paltry markets for U.S. exports. Taken together, the nations with completed deals account for less than 7 percent of total U.S. goods exported; if the pending accords with Colombia, South Korea and Panama are included, the figure is still only about 11 percent of all exports. (And that's just a sliver of the total economy; exports accounted for less than 8 percent of U.S. GDP in 2007.)

Moreover, although the administration's strategy was to use bilaterals as building blocks to regional and ultimately global trade accords, this approach, known as "competitive liberalization," has failed. Meanwhile, the administration's authority to negotiate new pacts expired in June 2007, and amid continued division in Congress over how trade deals should be structured, that authority is unlikely to be restored in the near future. The campaign vows by Sens. Barack Obama and Hillary Clinton to renegotiate NAFTA were emblematic of the antitrade mood in the American body politic.

THE GLOBAL CONTEXT

In the midst of this global situation, U.S. trade has not flagged in monetary terms. On the contrary, imports have played a crucial role in recent years in keeping inflation low, and exports have been a major factor in preventing the U.S. economy from falling into recession.

But the system that undergirds global commerce will be imperiled if its troubles are not addressed. In particular, the woes of the Doha Round raise profound concerns about the World Trade Organization's ability to continue as the main rule writer for global trade. For all its flaws, the WTO is a crucial lynchpin of stability—its rules keep a lid on member countries' import barriers; and by adjudicating trade disputes among member nations, it helps keep those disputes from flaring into trade wars.

The WTO's centrality was already in some doubt because of the proliferation in recent years of bilateral and regional trade agreements (fueled partly by Washington's enthusiasm); more than 200 of these accords are currently in force. To be sure, the WTO is hardly going to disintegrate overnight. But the more dysfunctional and irrelevant the WTO appears, the greater the danger that its authority will atrophy to the point that its member nations start to flout their commitments and ignore its tribunals' rulings.

THE CHALLENGE

The nations of the world have an enormous collective interest in ensuring that the multilateral trade system remains vibrant, and the best way to do that is to forge a credible, ambitious Doha Round agreement. The possibility of an accord on the main elements of the round before the end of 2008 cannot be ruled out, because a number of key leaders and trade policymakers—President Bush foremost among them—would love to burnish their legacies with such an accord. But the chances for a quick deal are remote, given the vast differences between key players—the U.S., China and India in particular—over the central issues of how much to liberalize trade in agriculture (that is, cutting both tariffs and subsidies). Overcoming these differences, and facing down powerful interests, will be a daunting task, especially for democratic governments.

Beyond the gaps in position among big powers, the Doha Round is suffering from the staleness of its agenda. Its ambition has already been whittled away. The deal on the table in July wouldn't have appreciably reduced current trade barriers; it would have mainly required member countries to lower their "bound" tariffs—that is, their legal maximums—to levels that are still above the "applied," or actual, rates. More important, the round in its current form would do almost nothing about several major trade-related issues that have arisen in recent years. One of these is the food crisis, which has prompted many nations to impose limits on crop exports. Another is climate change; some countries are moving toward imposing "green tariffs" based on the carbon content of imported goods, which may provoke challenges in WTO tribunals.

AMERICA'S OPPORTUNITY

The new U.S. administration should make it clear from the outset that its trade policy will be multilateral in focus; this can—and should—be coupled with a shift away from bilateralism:

> **Shoring up support for trade:** Perhaps most important of all, the new president must shore up support for trade, both in Congress and in the public at large; otherwise, no new trade agreements of any kind may be possible. This will entail bridging gaps on Capitol Hill over the key issue of whether trade agreements must contain enforceable standards for workers' rights and environmental protection. But much stronger steps will also be required on the domestic front, to expand the social safety net and health care. Mitigating Americans' legitimate worries about the disastrous impact of job losses is essential to turn the debate away from NAFTA's revision and toward enhancing the system that has underpinned the expansion of global trade for the past 60 years.

> **Breathing new life into the Doha Round:** The new president will have a historic opportunity to breathe new life into the Doha Round by proposing to broaden the negotiating agenda to include issues such as the food crisis and climate change. It is conceivable, of course, that such an approach will encounter such stiff opposition from other nations that it will prove impractical; if so, the administration should not turn to bilaterals and regional deals as an alternative but instead should pursue agreements in particular sectors (such as services) under WTO auspices with countries that are willing to liberalize.

> **Proposing a moratorium on bilateral trade agreements:** In addition, the president could propose a moratorium on bilateral trade agreements, a step that would be welcomed by many poor countries, which fear being marginalized in an increasingly splintered world of trade.

WANT TO READ MORE?

Blustein, Paul. "Doha Trade Talks Collapse: What's Next for Global Trade?" 2008, www.brookings.edu/opinions/2008/0820_trade_blustein.aspx.

Blustein, Paul. "Trade Pacts Run Amok?" *World Policy Journal*, vol. 23, issue 2 (August 2008), www.brookings.edu/articles/2008/08_trade_blustein.aspx.

Bown, Chad, and Rachel McCulloch. *Trade Adjustment in the WTO System: Are More Safeguards the Answer?* Brookings Global Working Paper 7, 2007, www.brookings.edu/papers/2007/06trade_bown.aspx.

Brainard, Lael. "America's Trade Agenda: Examining the Trade Enforcement Act of 2007. "Testimony Before the Senate Finance Committee," May 22, 2008, www.brookings.edu/testimony/2008/0522_trade_brainard.aspx.

Brainard, Lael. "New Economy Safety Net: A Proposal to Enhance Worker Adjustment Programs," *Democracy Journal*, Spring 2008, www.brookings.edu/articles/2008/spring_economic_security_program_brainard.aspx.