

BY GREG RUSHFORD

If any government is to lead the World Trade Organization's current marathon trade-liberalization negotiations (dubbed the Doha Round), it is Washington. America has been the driving force on liberalization since the 1930s, when Cordell Hull, FDR's secretary of state, worked tirelessly to revive Depression-stunted international commerce. Now, in the Doha Round, Washington is again leading the pack, with offers to dismantle trade-distorting farm subsidies and to cut industrial tariffs, or perhaps eliminate them entirely.

At least, that's the spin. But as usual, Satan is in the small print.

What U.S. negotiators are, in fact, fighting for behind closed diplomatic doors is far from pretty. Protectionist sentiment has been steadily rising in the United States in recent years, and now it tends to dominate the debate in a bitterly partisan capital. Consequently, it is far from clear that any American administration, Democrat or Republican, could provide the sort of international leadership that is part of the job description of an economic superpower.

While genuine U.S. leadership is increasingly problematic, the need for John Winthrop's proverbial City on the Hill has never been more apparent. In 1947, America and 22 other (mostly wealthy) countries that were deeply dependent on the United States founded the General Agreement on Tariffs and Trade to serve as a road map to dismantling

trade barriers. GATT's successor, the World Trade Organization, with seven times as many signatories as the original GATT, must cope with a far more intricate tangle of interests.

Even when the focus was just tariffs, multilateral trade liberalization was never easy. It took six years of Tokyo Round negotiations in the 1970s for the GATT members (by then, 102 countries) to agree to cut industrial tariffs to an average of 4 percent. And that agreement was only possible because the conferees agreed to disagree on a variety of barriers to trade that are still making headlines today – most notably, Europe's stubborn defense of agricultural-subsidy programs that keep its storybook countryside intact, even as it pauperizes farmers in Africa, Asia and Latin America. Talk about *déjà vu*.

FESTERING OLD ISSUES, COMPLEX NEW ONES

Reports that the U.S. trade representative, Rob Portman, is frustrated over the Old World's defense of inefficient farming, a stance that is the major obstacle to progress in

GREG RUSHFORD is the editor and publisher of the *Rushford Report* (www.RushfordReport.com), a newsletter on the politics of international trade.

the Doha talks, have a familiar ring. By the late 1960s, according to now-declassified government documents, U.S. officials had long since become exasperated with their colleagues across the pond.

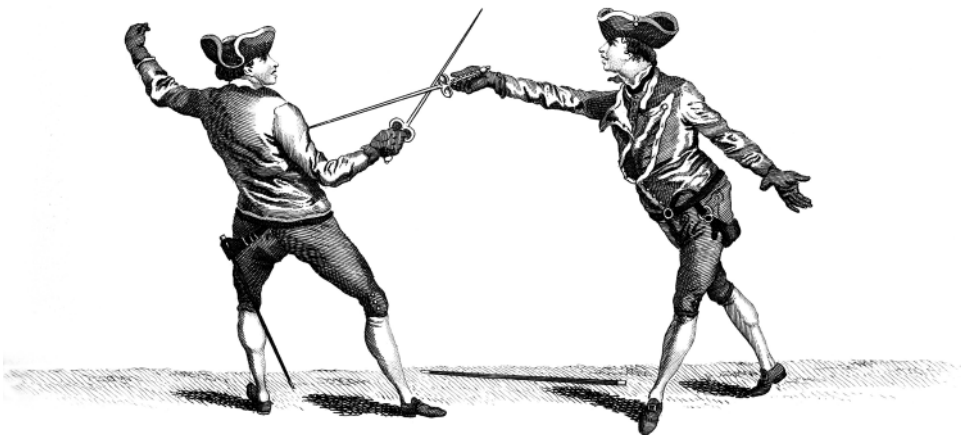
“We are headed for a major confrontation with the European Community regarding its agricultural trade policy,” Richard Nixon’s agriculture secretary, Clifford Hardin, said in a 1969 memo to his boss. European farm politics, Hardin grouched, was “completely insular, and consequently incompatible with the objectives of expanding world trade.”

But the Nixon-era confrontation, like others before and since, accomplished little be-

to trade (like discriminatory food-safety rules) to abusive antidumping rules (like U.S. policy on steel, honey and shrimp) to messy intellectual property-rights issues (like prescription-drug patents). The days when the international rules could be decided at the 11th hour by a handful of rich countries were over.

UNITED STATES LEADERSHIP BEGINS TO STUMBLE

The Kingdom of Tonga, a group of 169 Polynesian islands of which 133 are uninhabited, is scheduled to become the WTO’s 150th member. Any single member – even mighty



yond giving American farmers more excuses to persuade Washington to give them “temporary” subsidies to counter the Europeans? And, by 1995, when the GATT morphed into the WTO with the conclusion of the eight-year Uruguay Round talks, Europe’s antiquated farm policy was only one of many potential deal-breakers that had been shoved under the proverbial rug.

Indeed, the WTO inherited a Pandora’s Box of issues ranging from non-tariff barriers

Tonga – could bring the Doha negotiators to their knees by blocking consensus. Indeed, with increasingly assertive demands of ad hoc groupings of countries from the poorer corners of Asia, Africa, the Caribbean and Latin America, that’s just what’s happening.

The Doha Round was to have been the “Seattle Round,” before Seattle’s good name was besmirched when anti-globalist rioters battled police for control of the streets during a WTO meeting in that city in December

TRENDS

1999. The angry young activists were happy to take responsibility for tanking the talks. But President Bill Clinton probably deserves more of the credit; he outraged newly empowered third-world diplomats by proposing economic sanctions for countries whose labor practices did not meet the (double) standards advocated by the AFL-CIO.

Actually, President Clinton had taken a giant step toward ceding America's leadership five years earlier, when he failed to bulldoze Congress into giving him fast-track trade-negotiating authority – the right to insist that Congress approve or disapprove new trade

Congress fast-track authority, which is set to expire in July 2007.

The Doha Round was first scheduled to have been completed by January 2005, a date nobody took seriously. In September 2003, negotiations again collapsed in acrimony in Cancun, Mexico. The talks were put back on track (well, sort of) in mid-2004, and limped along to the ministerial meetings in Hong Kong last December.

The good news from Hong Kong was that the negotiations didn't fail outright. But they didn't make much progress, either. The trade pooh-bahs meet next in Geneva in April, where they hope to make enough progress to

The unwritten rules of the game are simple zero-sum terms: diplomats attempt to face down their counterparts, pressing them to make import-opening “concessions” while offering as few market-opening concessions of their own as possible.

measures he had negotiated with a single up-or-down vote. This left politicians free to pick apart any new WTO trade accord, item by protectionist item. Worse, it emboldened protectionist lobbyists, who sensed that the president wasn't prepared to spend major political capital to defeat them.

The round was put back on its wheels when WTO ministers launched new talks in Doha (that's right, trivia fans, the capital of Qatar) in November 2001, after narrowly avoiding a breakdown over a spat between Thailand, the Philippines and the European Union over canned-tuna exports. President Bush was then (barely) able to wrest from

wrap up the round before President Bush loses his fast-track authority.

If the Doha Round deal isn't somehow completed next year and a Democrat supported by organized labor wins the 2008 presidential election, the state of play could return to pre-Seattle days.

Just how bad are the Democrats on trade? Back when Bill Clinton was in office, poor little Cambodia agreed to become a test tube for the Democrats' labor agenda by cooperating with international inspectors, who would independently verify that Cambodia's garment industry was operated under labor-friendly conditions. Nevertheless, the Democrats still

refused to support Cambodia's plea for duty-free access to U.S. clothing markets.

MERCANTILISM LIVES

The unwritten rules of the game are simple zero-sum terms: diplomats attempt to face down their counterparts, pressing them to make import-opening "concessions" while offering as few market-opening concessions of their own as possible. The cookie-pushers with the most stamina make the fewest concessions and thus are declared winners by the media.

sound, well, Clintonesque.

At least Bush was willing to go to the mat to get the Doha negotiations launched. But U.S. trade officials are still operating under negotiating instructions that would sound familiar to 18th-century mercantilists dedicated to the principle that the less you import – and the more foreign currency you amass – the better.

AFTER YOU, ALPHONSE

The Europeans are going around these days hinting that they just might be a little more



But what exactly do they win? As every economist knows, trade diplomats largely represent the interests of lobbies that have few interests in common with the public's. Exports are good things, but imports are politically "problematic," as William Daley, Clinton's commerce secretary, once candidly explained. When he was in office, Clinton avoided the "i" word as much as possible, while trying to sell trade as a way to promote exports and jobs. And George W. Bush quickly learned to

generous in offering to dismantle their farm barriers if only countries like Brazil would signal their willingness to lower tariffs on manufactured goods and open their borders to European service purveyors, like banks and insurance companies. Meanwhile, Tokyo's idea of what a successful Doha Round would look like is basically to hang on to Japan's astounding 700 percent tariff on rice – they still grow the stuff on prime suburban real estate – and dangling more foreign aid to poor

TRENDS

countries willing to provide more market access to Japanese exporters.

New Delhi's negotiating team calls for rich countries to open their markets wider to India's talented providers of services, while insisting that, as a developing country, India deserves "special and differential" treatment on accepting imports. Even some of the poorest of the poor countries, which were offered total exemptions from making their own liberalizing steps in the Doha Round, are still

lie. Consider the demand from the WTO's poorer countries for the Europeans and Americans to eliminate their farm subsidies. That's clearly a rational position for an economist to take, as everyone knows how these subsidies – some \$300 billion annually – distort global trade flows. But it's not that simple for third-world policymakers. Cotton producers like Uganda and Mali rightly protest that the subsidies that the Americans lavish upon their (well-to-do) cotton farmers inflict miseries upon impoverished African cotton



balking – a stance so bizarre that one must wonder which anti-globalist French intellectuals are giving them advice. India's position on cutting agricultural tariffs is that this is a terrific idea for the rich countries. At least India, which has begun to prosper as it becomes a real participant in the global economy, has a stake in a successful outcome of the Doha talks. But the way these things play out, nobody moves until the midnight hour.

MULTIPLYING COMPLEXITIES

Sometimes it seems that trade negotiations have become so complex that the major players have lost sight of where their own interests

farmers. But these same countries rely on imports of wheat, rice and soybeans from Europe and America. And the subsidies mean cheaper food for equally impoverished African consumers.

Other former colonial possessions, like Mauritius, find themselves in the economically awkward position of urging that the Doha negotiations do something about the trade-distorting effects of Europe's farm program, while simultaneously trying to hang on to the duty-free access that the Europeans have been giving favored sugar exporters, including Mauritius. And when it comes to the banana trade, there are wheels within wheels

within wheels.

Actually, bananas aren't officially on the Doha agenda, but the fight over them has helped poison the atmosphere big-time, fueling resentments over a perceived American callousness toward the less fortunate. Indeed, when trade aficionados speak of how some WTO issues are approaching the intractable, the talk inevitably turns to bananas.

YES, WE HAVE BANANA POLITICS

The fight over the banana trade has it all. It has pitted not just rich American interests against rich European ones, but poor Africans

nomically addicted to quota preferences. Meanwhile, European consumers paid premium prices for the fruit.

Uncle Sam challenged the European preference regime on behalf of Chiquita Brands, which has had extensive operations in Latin America since the days the company was named United Fruit. Chiquita's CEO, Carl Lindner, launched a major campaign to protest European policies that gave their own multinational growers, like Fyffe's, a bigger slice of the EU's banana pie than Chiquita. And he didn't have much difficulty winning allies in Washington, perhaps because he has

One of the biggest fights in Hong Kong pitted the world's economic superpower against Cambodia and Bangladesh, two of the poorest countries on the planet.

against poor Latin Americans as well. The political split over bananas has also hurt innocent bystanders in the Caribbean, who are left wondering why the Americans don't seem to care what happens to island banana growers.

Beginning in the early 1990s, the U.S. government, supported by major Latin American banana producers including Ecuador and Honduras, engaged Europe in protracted trade warfare over European import preferences that were holdovers from the colonial era. The Europeans had a quota scheme that guaranteed former colonies including the Ivory Coast, Cameroon, Jamaica, Grenada and Dominica a share of Europe's banana market. The original justification was the need to protect ongoing European interests. But over the years, these otherwise uncompetitive former possessions had become eco-

been a big contributor to both parties.

As it turned out, Chiquita had international law as well as Bill Clinton on its side. In September 1997, the WTO's dispute-resolution system determined that the EU's quotas were indeed discriminatory.

Two years later, the United States slapped on more than \$190 million in retaliatory trade sanctions when the Europeans balked one time too many at reforming their banana quotas. Finally, in 2001, the European Union promised to drop the quotas once and for all by 2006, and to adopt preferences that gave favored countries a break on tariffs but set no absolute quotas.

Well, 2006 has arrived, but the fight continues – this time over how high the tariff on non-preferred bananas should be. First, the EU proposed a tariff of €230 (about \$280) per

TRENDS

metric ton on banana sellers outside the preference club. The Latin Americans were infuriated. But Cameroon and the Ivory Coast were delighted with a barrier that would clearly put the likes of Ecuador at a major competitive disadvantage. When the Latinos found sympathy for their position at the WTO, the EU proposed lowering the tariff to €176 – while resurrecting the idea of maintaining some guaranteed quota for the Africans, who pay no tariffs at all.

er against Cambodia and Bangladesh, two of the poorest countries on the planet. The difficulty was that when the U.S. negotiators advocated a world with no tariffs, the Cambodians and Bangladeshis took them at their word. Plainly, all were in agreement that current U.S. tariffs on clothing – which run in the punishing 18 to 36 percent range – should be eliminated.

Why would this concession be so difficult for Washington? Before the U.S. trade representative went to Hong Kong, he and Presi-

The only certainty in the April meetings in Geneva is that, while America still presents itself as a champion of the poor, it is bound to score high on the hypocrisy index.

While the United States has been fighting Europe on behalf of Chiquita's plantations, Dominica's small-scale banana farmers, like others in the Caribbean, have been left out in the cold. In 1990, there were more than 6,000 Dominican banana farmers; now there are about 1,000. Britain, France, Japan, China and even Kuwait have provided adjustment assistance to Dominica, as has the World Bank and the International Monetary Fund. But Washington, the proximate cause of Dominica's woes, has remained aloof. Nobody in Washington should be surprised, then, that Caribbean countries have been so difficult to deal with in the Doha-round negotiations.

THE UNITED STATES VERSUS BANGLADESH?

In the politics of trade, truth is stranger than fiction. One of the biggest fights in Hong Kong pitted the world's economic superpow-

er Bush had heard from 24 members of Congress, who wrote to express their strong opposition to any suggestion that the United States grant the world's poorest countries "duty-free and quota-free access to the United States market." Meanwhile, Cass Johnson, the president of the National Council of Textile Organizations, also went to Hong Kong, where he warned on Dec. 15 of the dangers that Bangladesh could become a textile super-state if free trade in clothing suddenly broke out.

Two days later, the WTO director-general, Pascal Lamy, attempted to break the negotiating logjam by calling for rich countries to provide "simplified and transparent rules of origin so as to facilitate exports" from the world's poorest nations. But when the U.S. textile lobbyists saw the words "simplified and transparent," they swung into action.

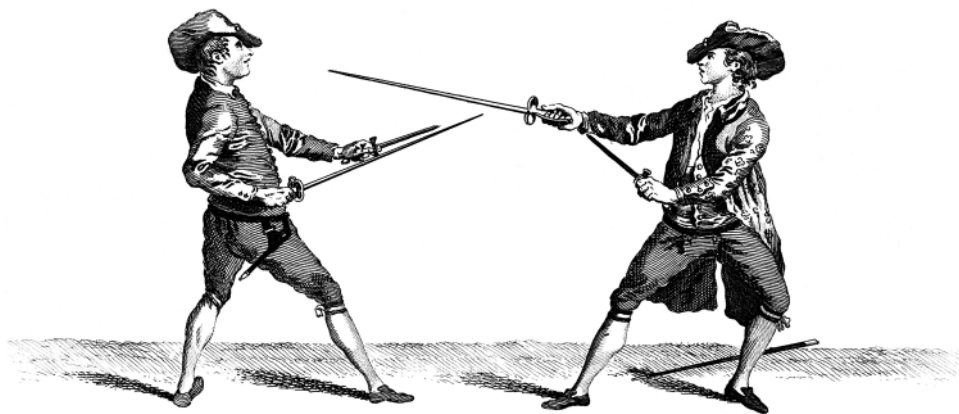
In its bilateral trade deals with Latin Amer-

ica, Mexico and Africa, the United States has insisted on a rule of origin that gives duty-free access to U.S. clothing markets only to suppliers who pledge to buy American yarn and fabric. Congress would never agree to “simple and transparent” rules for clothing in the Doha Round, Johnson, the textile lobbyist, declared. “If they want to kill the round here, this is the way to do it,” he added.

In the end, the words “simplified and

was, after all, formerly East Pakistan before it became Bangladesh, arguing that if truly poor countries like Bangladesh were given duty-free access to the rich world, it would come at the expense of slightly better off countries like theirs.

But, of course, it is America’s myopic defense of its own struggling industries, like clothing, that rankles most. The only certainty in the April meetings in Geneva is that,



transparent” were retained, but the rich countries got a license to interpret the rules the way the U.S. textile lobby wanted. The negotiators also specified that the poorest countries would get duty-free access to only 97 percent of rich-country markets. While that sounds generous, in practice this leaves the United States free to keep high tariffs on the clothing from Cambodia and Bangladesh, both of which are trying to sew their way out of poverty.

To be sure, the United States was not the only major player in Hong Kong to spark resentment in the third world. With the interests of its rice lobby in mind, Tokyo joined Washington in opposing duty-free access to the poorest countries.

Even Pakistan was happy to pile on to what

while America still presents itself as a champion of the poor, it is bound to score high on the hypocrisy index.

Is there a better way? Not every rich country talks globally and acts provincially. Consider Hong Kong, Australia and New Zealand, which have each summoned the political will to open their markets without first demanding that all of their trading partners do the same. And they have each done well by doing good. Hong Kong’s textile industry has survived and adapted without protective tariffs, while southern mill towns in the United States have been dying by inches for decades. And, somehow, unsubsidized Australian and New Zealand farmers manage to compete with their coddled competitors from the United States and Europe. **M**