Understanding US Trade Policy: Circa 2001

Jeffrey J. Schott
Senior Fellow, Institute for International Economics

Prepared for the International Affairs Institute
Rome, Italy
October 18, 2001

By coincidence of the calendar, trade policy has been in the spotlight for much of the first year of the Bush administration. From the start, President Bush has had a heavy schedule of meetings involving key trade issues. In February 2001 (and again in September), he met with President Vicente Fox of Mexico regarding the deepening of bilateral economic integration; in April he went to Quebec City for the Third Summit of the Americas; in June he went to Brussels for the US-European Union (EU) summit; in July he traveled to Genoa for the annual G-7 summit of industrial nations; and in October he ventures to Shanghai for the annual summit of the leaders of the Asia Pacific Economic Cooperation (APEC) forum. At the same time, his trade ambassador, Robert Zoellick, has labored tirelessly to advance bilateral free trade talks with Singapore and Chile, negotiations on a Free Trade Area of the Americas (FTAA), and preparations for a new round of multilateral trade talks in the World Trade Organization (WTO) that hopefully can be launched at the ministerial meeting in Doha, Qatar, in November 2001.

The confluence of trade meetings so early in the new administration has had important policy implications. First, it has required President Bush to quickly and actively engage in trade issues, and to travel abroad extensively to meet his counterparts and allies. Second, current and prospective trade negotiations have increased the urgency to gain passage of trade promotion (formerly "fast track") authority, which has been given priority on the legislative calendar. Rebuilding domestic consensus on trade policy, unraveled by the acrimonious debate over the North American Free Trade Agreement (NAFTA) and the seven-year impasse over renewal of fast track authority, is essential for the active engagement of the United States in new trade negotiations.

To be sure, the negotiations between the White House and the Congress on new trade legislation could produce demands (1) that US negotiators press for trade reforms that other countries find onerous (e.g., eliminating farm export subsidies) or undesirable (e.g., linking trade and labor issues), or (2) that US officials staunchly defend current US practices (e.g., antidumping laws) or programs (e.g., sugar quotas). With some confidence, I can predict that new US trade legislation will both promote and complicate the negotiation of new trade accords.

My talk today will examine US trade policies and the domestic interests underpinning them. I will first discuss the key objectives of US policy and the multi-faceted approach adopted to pursue US trade objectives. I then turn to the competing domestic interests that shape US priorities in bilateral, regional, and multilateral trade negotiations.

US Trade Strategy in a Nutshell

Almost 30 years ago, Richard Cooper wrote a prescient article in the journal *Foreign Affairs* entitled, "Trade Policy is Foreign Policy." With the advance of globalization, economic interactions between nations have become an increasingly important component of foreign relations. Economic aid and economic sanctions are used to promote good relations or to coerce good behavior from foreign governments. Growing commercial ties do create a web of interlocking interests, as Henry Kissinger has often said, but they also can create a set of conflicting policy objectives within each country. Should political and security interests trump commercial concerns? In the Cold War era, the obvious answer was yes--and Europe generally followed US leadership on economic matters in deference to the broader strategic alliance. In the post-Cold War era, however, other interests also command attention.

Over the past two decades, US policy has been schizophrenic regarding the role of commercial policy in overall US foreign policy. Some members of Congress and the business community have felt that trade should be unfettered and not be a handmaiden to foreign policy. To that end, the Congress moved most trade functions of the State Department to the Commerce Department in 1979 to emphasize that business should not pay for foreign policy measures. At the same time, however, members have put forward legislation limiting US trade with or financial assistance to countries that violate specified norms of good behavior such as human rights abuses, proliferation of weapons, and drug trafficking. As evidenced by the Iran and Libya sanctions, US firms often are hurt by the US measures as much if not more than foreign firms.

The new Bush administration regards trade policy as a strategic component of its overall economic and foreign policy and is following a multi-faceted trade strategy quite similar to that pursued by the president's father a decade ago to achieve its objectives. The goals are broad ranging: to promote "economic growth, higher living standards, higher wages, and full employment in the United States" by reducing overseas barriers to US goods, services, and investment and by strengthening rules and procedures of the world trading system; and to use trade as a tool to support "economic growth, development, reduction of poverty, and increased democratization around the world" (USTR 2001)

The policy links free market principles with the strategic goals of US foreign policy, particularly vis-à-vis developing countries. Free trade promotes economic growth and the rule of law, and strengthens the foundations of democratic governance. "Open trade reinforces the habits of liberty that sustain democracy over the long term" is the way President Bush has summarized one of the main tenets of US policy. Similarly, USTR Zoellick articulated the strategic vision of US trade policy succinctly in congressional testimony in June 2001:

"Trade promotes economic liberty, which spurs political liberty. Open markets generate private sector energy. This openness and private exchange advances the rule of law. And trade prompts stronger economic growth--a foundation for development and healthy civic societies."

Like his father, and with many of the same advisors, President Bush is pursuing a multi-level trade strategy that links bilateral, regional, and multilateral trade initiatives.[1] The policy combines bilateral and regional free trade talks with developing countries, and multilateral initiatives in partnership with the industrial countries--particularly the European Union--to strengthen the trading system and manage trade relations among the major trading powers. The bilateral talks involve deepening economic integration with

[1] The trade strategy, closely tied to President Bush's domestic and international political agenda, is driven by USTR Zoellick and Commerce Secretary Don Evans, and is coordinated in the White House by National Security Advisor Condoleeza Rice, Deputy Chief of Staff Josh Bolten (former USTR general counsel), and international economics advisor Gary Edson (former USTR chief of staff). Commerce Under Secretary Grant Aldonas also plays a key role in the push for new trade legislation and the implementation of US unfair trade statutes.

Mexico and concluding free trade pacts with Chile and Singapore (initiated at the end of the Clinton administration). These bilateral initiatives in turn are designed to catalyze broader regional reforms in North America (e.g., integrating energy markets), in Latin America (through the FTAA), and in East Asia (through APEC). The bilateral and regional initiatives in turn yield the best results if complemented by a strong multilateral trading system that deters discrimination and establishes a level playing field for rich and poor alike.

For that reason, it is a mistake to say that Latin America has priority in US trade policy because President Bush went to Quebec City soon after taking office, or to say that Chile and Singapore have privileged status because they are negotiating free trade pacts with the United States. Rather, the initiatives are interlinked and mutually reinforcing. The bilateral talks are part of a broader regional strategy that works best under the umbrella of a strong rules-based multilateral system. So the launch of a new round of WTO negotiations is critical to the success of the diverse bilateral and regional efforts. Indeed, in some cases, parallel progress in WTO talks on issues such as agriculture may be required to achieve agreement at the regional level; in other cases, progress made in regional talks (e.g., on investment and competition policy) may provide precedents that can drive multilateral accords.

But it is also important to stress that the strategy can work, albeit inefficiently, in the absence of progress at the multilateral level. If a new round is not launched at the Doha Ministerial, for example, the bilateral and regional initiatives will proceed and may be expanded to other countries. The risk is that countries will divert attention away from the WTO and implement new trade reforms on a discriminatory basis. Perhaps the more serious risk, however, is that the problems with existing WTO rules will not be fixed and festering disputes then erode confidence and support in the multilateral system.

The extensive agenda of trade negotiations provides the United States with an opportunity to reclaim leadership in the world trading system and to promote its free trade principles with developing countries and countries in transition from socialism. However, progress on all these initiatives depends importantly on the passage by the US Congress of new trade negotiating authority. Such legislation, now termed "Trade Promotion Authority" (TPA) and formerly referred to as "fast track", provides more than the means to expedite ratification of new trade pacts and changes in US law required to comply with new trade obligations. It also establishes the negotiating priorities and the conditions for US participation in trade talks. Negotiations on the trade legislation involve both the substance of trade talks and congressional prerogative in the trade policymaking process. Given the acrimony of the trade policy debate in the Congress in recent years, and the wide differences in positions between Democrats and Republicans and within each party, the Bush administration faces a difficult challenge in finding a centrist majority that will support its trade reform initiatives. It is no exaggeration to say that Zoellick's toughest negotiation will not be with the European Union or with developing countries, but with his own Congress!

On that somber note, let me try to explain some of the key aspects of the domestic trade policy debate in the United States.

Domestic Trade Politics

Over the past two decades, there has been a steady unraveling of bipartisan support for an open US trade policy that had been the hallmark of the postwar era. Two factors go a long way toward explaining this complex and highly nuanced development. First, the US economy has become much more open to trade. In the 1960s, US exports and imports of goods and services together were just 9 percent of US GDP; in other words, the US economy was relatively closed. Over the past three decades, however, the US economy has undergone a dramatic reorientation and the trade/GDP ratio has almost tripled to 25 percent in 2000. Consequently, more firms and workers are affected by competition from foreign suppliers and by developments in foreign markets. Consumers have benefited from increased choice and reduced inflation; but firms have had to retool and restructure to keep pace with global competition. In other words, there have been global benefits but localized costs for US firms, workers, and their communities. These groups are now much more concerned about and active in the development of US trade policies.

Second, dozens of congressional committees now are involved in areas covered by trade negotiations, reflecting the growing interests and concerns of their constituents. In the past, the House Ways and Means and the Senate Finance Committees were the only members involved in trade policymaking in the Congress, and both have traditionally strong ties with the business community (given their jurisdiction over tax policy). With the decentralization of power, not only do committee chairmen have less control over their members, but the two powerful committees now share responsibility with many others that deal with narrower areas such as agriculture, banking, and the environment, to name a few. As a result, instead of a handful of voices representing congressional views on trade, there are now literally hundreds of congressmen and women who work on various trade issues. Interest groups lobby individual members to vote for or against trade initiatives or to use trade measures to support their particular policy goals. Labor and environmental constituencies, along with human rights and pro-democracy advocates, are now part of the trade policymaking process. The result: individual issues such as labor standards or human rights gain prominence in the domestic debate and require attention in international negotiations.

With the slowdown in the US economy, and the increase in unemployment from historically low levels, protectionist pressures have begun to emerge in US trade politics. Interestingly, unlike the mid-1980s, there has not been a push for significant protectionist legislation (except for steel and Mexican trucking services)--despite a record US merchandise trade deficit that totaled $450 billion in 2000 or about 4.6 percent of GDP and a sharp jump in unemployment to 4.9 percent by September 2001. However, both liberal and conservative groups have united in opposition to new trade initiatives, blocking the passage of new trade negotiating authority and hampering the pursuit of new regional and multilateral trade initiatives. In addition, they have increased pressure for the use of process protectionism via restrictive rules of origin, safety standards, and safeguards and antidumping measures. The squeaky wheels of trade politics often get the grease, especially if they involve constituent groups in states which will likely be hotly contested in the next presidential election. That is one reason why President Bush effectively committed to granting import relief for steel producers and why southern textile and sugar producers get special origin rules or tariff-rate quotas when trade preferences are negotiated (e.g., NAFTA and the Caribbean Basin Initiative).

Given current economic conditions, and the complexity of US trade politics, the Bush administration faces a tough task in crafting a bipartisan coalition in support of new trade promotion authority. To do so, the president will have to garner support from some Democrats in the House of Representatives to reinforce the ultra-slim Republican majority and to offset several dozen members of his own party who do not support free trade pacts. In addition, he will need to work with Senate Democrats, who now hold a slim majority and control the legislative calendar. Trade legislation will have to navigate a three-stage process: passage of a House bill (with a vote possibly by mid-October), passage of a Senate bill, and then reconciliation of both bills in a House-Senate conference. In this tri-level game, tactics are as important as substance, with each player keeping a watchful eye on the implications of the bill for the mid-term election in November 2002.

The task is delicate but doable. Democrats will demand that attention be given to labor and environmental objectives in trade accords. Republicans will insist, in turn, that the trade pacts do not intrude on domestic regulatory authorities and promote the re-regulation of economic activity. If both sides want the United States to remain engaged in trade talks, they can craft a pragmatic compromise that supports new international initiatives on labor issues (primarily in forums that have primary responsibility for those issues) but is not so ambitious regarding enforcement measures as to provoke a veto from developing countries in trade negotiations.

Bilateral and Regional Free Trade Initiatives

To convince Congress to move forward with TPA legislation, the Bush administration needs to demonstrate the prospective gains for US firms and workers that could accrue from new trade initiatives. Deepening ties with Mexico, the second largest US trading partner with $250 billion in two-way merchandise trade in 2000, is a key part of this effort, particularly regarding energy and migration issues that are so important to the southwest US border states (California, Arizona, New Mexico, and Texas). In addition, making progress in ongoing FTA negotiations and in preparations for a new WTO round have been crucial for administration efforts to "sell" TPA to the Congress and the American public.

In bilateral and regional negotiations, the Bush strategy has been to create a "competition in liberalization" among US trading partners so that trade reform in one market begets similar reductions in other markets. This strategy draws on the Reagan-Bush experience with free trade pacts with Canada and Mexico. Soon after the conclusion of the Canada-US FTA and the NAFTA, a number of US trading partners sought to negotiate comparable pacts with the United States or to accede to the NAFTA. In 1991, President Bush committed to launch FTA talks with Chile; President Clinton repeated that pledge and called for a broader pact among the "Four Amigos" (NAFTA plus Chile) during the Summit of the Americas in Miami in December 1994. A backlash against NAFTA blocked the expansion of the pact to new members, though Chile has concluded FTAs bilaterally with both Mexico and Canada. Negotiation of a US-Chile FTA finally began in December 2000 in the waning moments of the Clinton administration (after Chile withdrew its demand that talks start only after the passage of

US fast-track authority) and has been carried forward aggressively by the Bush administration, fulfilling the pledge of the president's father a decade earlier.

US trade talks with Chile are not important because of their potential impact on bilateral trade. Rather, the United States regards the negotiations as a catalyst for a broader accord in the region. Given its generally free market policies and healthy democratic orientation, Chile and the United States follow a similar approach to trade liberalization. Moreover, Chile included a side accord on labor in its FTA with Canada (which contains enforcement provisions but no recourse to trade sanctions) and has been amenable to adding similar provisions in its deal with the United States. Reaching agreement was thought to be relatively easy and talks were scheduled to conclude by the end of 2001. However, differences over agricultural issues and US antidumping practices have posed significant obstacles and will require more protracted negotiation.

In addition to bilateral talks with Chile, the United States and the Mercosur countries have revived their so-called "4 plus 1" trade talks to complement other bilateral initiatives to help Argentina and Brazil overcome their current economic problems. Such talks, which started in September 2001, are designed to coordinate efforts on the launch of a new WTO Round and to jumpstart the slow moving negotiation of a FTAA by the time the United States and Brazil assume co-chairmanship of the talks in November 2002.

However, the FTAA remains the main channel for promoting free trade with countries in the Western Hemisphere. Since the Summit of the Americas in Miami in December 1994, the United States has been engaged with 33 other countries in the Western Hemisphere in preparations for and then negotiation of a FTAA. The Miami

Summit committed to an ambitious timetable for concluding negotiations "no later than 2005". This deadline was reaffirmed at the third summit in Quebec City in April 2001 with the additional commitment to complete ratification of the pact by the end of 2005. The FTAA negotiating agenda is more comprehensive than that of the Uruguay Round. Indeed, it covers several of the new issues that face strong opposition from developing countries in the run-up to new WTO talks.[2]

To date, FTAA participants only have agreed on a set of business facilitation measures (covering visas and customs clearance procedures, and electronic data interchange systems). In addition, they have crafted a "bracketed text" that delineates the areas of agreement and disagreement regarding the prospective trade obligations of the FTAA. This very preliminary draft needs to be supplemented by agreement on the rules and procedures that will guide the crucial market access negotiations. Those talks, which will not formally start until May 2002, will develop the timetable for eliminating barriers to hemispheric trade as well as limited exceptions, if any, to the free trade regime.

The United States has two overarching goals in pursuing an FTAA. First, free trade in the Americas is an integral component of a global US trade strategy designed to reduce barriers to trade and investment and thereby increase US trade, production and the productivity and income of US workers. Second, the FTAA is the linchpin of the broad array of summit initiatives that seek to promote closer cooperation in the hemisphere to deal with pressing economic, social, and political problems.

The trade objective is straightforward. Breaking down Latin American trade barriers will yield important new opportunities for US firms to export and invest. US firms benefit and US workers benefit as well, since exporting firms generally pay higher

[2] For an analysis of the negotiating issues and prospects for an FTAA, see Schott (2001).

wages and offer steadier employment than firms that do not export (Richardson and Rindal 1996). The same applies to US firms that invest abroad, since they also are significant exporters. In addition, the FTAA would help level the playing field for US-based exporters by reducing discrimination resulting from other FTAs in the region to which the United States is not a party. The US Congress is particularly concerned about discrimination against US-based producers as a result of free trade pacts that Latin American countries have or may sign with each other and with the European Union.[3] In some cases, such pacts have forced US firms to source their exports from their foreign instead of domestic production plants to the detriment of US workers. US trade with Latin America is currently small but could grow sharply if trade and investment barriers were eliminated. For example, US-Brazil trade could expand from $29 billion in 2000 to perhaps as much as $86 billion if a free trade pact were in effect (Schott 2001).

Second, the United States benefits when its neighbors prosper and democratic processes deepen. The FTAA would help strengthen the economic foundation on which Latin American and Caribbean countries have built their democratic societies. Furthermore, the prospect of improved trade relations can act as a magnet for attracting support among Latin American countries for other important US political and foreign policy goals, including cooperation on drug interdiction, improving environmental and labor conditions, supporting educational reforms, and reinforcing democracy. Thus, an FTAA could have important spillover effects on overall US relations with the region. This point is well illustrated by the 2000 Mexican presidential election, which demonstrated the salutary effect of economic integration on political reform.

[3] For an analysis of European free trade initiatives in the Americas, see Schott and Oegg (2001).

In the Asia-Pacific region, US strategy is similar but less concrete. Momentum toward fulfilling APEC's free trade commitments, undertaken at the Bogor Summit in November 1994, has stalled. FTA talks between the United States and Singapore, spawned at the Brunei APEC Summit in November 2000, seek to catalyze new reform efforts in the region. Indeed, Singapore's trade minister, George Yeo, envisages that these talks will eventually broaden to a "P-5" FTA (adding Australia, New Zealand, and Chile) or even a "P-6" (plus South Korea).[4] The United States regards Singapore, like Chile, as a "like-minded" country. Unlike talks with Chile, however, antidumping and agriculture do not pose problems for a FTA with Singapore, although other problems have arisen involving investment, services, and rules of origin, which may delay conclusion of the pact beyond the yearend 2001 deadline.

APEC is a key component of US trade strategy for another reason. It provides an important forum for integrating China more fully into the world economy and for promoting regional support for multilateral negotiations. APEC countries worked together to conclude the Uruguay Round in late 1993 and could give a big push for the launch of a new WTO round at Doha with a positive trade declaration at APEC's Shanghai Summit in October 2001.

Launching a New WTO Round

As the world's leading trading nation, the United States has substantial interests in the successful launch of new multilateral trade negotiations. Global trade reforms provide the biggest bang for the buck. Even partial liberalization of existing trade

[4] At the same time, Singapore is negotiating FTAs with Japan and Australia, and has concluded negotiations with New Zealand.

barriers would yield global welfare gains ranging from $400 billion to $600 billion.[5] A new round is also crucial to fix the problems that have arisen in the first seven years of operation of the WTO system and to augment the trading rules to keep pace with the rapidly changing developments in world commerce in goods and services.

As I noted earlier, a well-functioning multilateral trading system is an integral component of US trade policy--as it has been throughout the postwar era. That is why the United States has been the *demandeur* of all eight GATT rounds and why it must redress the mistakes made at the WTO ministerial in Seattle in December 1999 and lead WTO members into a new round at the Qatar ministerial in November 2001.

Since the start of the Bush administration, USTR Zoellick has been preparing the ground for new multilateral trade talks through two integrated initiatives: restoring cooperation, if not consensus, among the Quad countries; and engaging the developing countries on the prospective WTO negotiating agenda. In both cases, he has had to overcome tensions stemming from bilateral trade disputes, problems with implementation of past trade accords, and residual ill will dating back to the Seattle debacle.

The first step was to revive US-EU cooperation. Both sides had allowed a rash of tendentious disputes to obstruct efforts to promote their common trade objectives in the WTO. Litigation had superceded consultation and negotiation in the settlement of disputes, and both sides filed WTO complaints against the other's practices seemingly without strategic purpose. This silliness reached its peak when European Commission Vice President Sir Leon Brittan filed a WTO dispute against the US Foreign Sales

[5] The higher figure, based on a one-third reduction in global barriers to goods and services, was cited in a speech by WTO Director General Mike Moore in Interlaken, Switzerland, on July 5, 2001.

Corporation (FSC) program in retaliation for US cases brought against EU policies on bananas and hormone-treated beef. The subsequent WTO rulings found that the FSC program did confer illegal export subsidies and the European Union may soon be authorized to retaliate against about $4 billion in US exports if US law is not brought into compliance with WTO obligations. The potential disruption to transatlantic trade is so great (more than 10 times larger than US retaliation against bananas and beef hormones combined) that it would provoke a serious crisis in both the WTO and transatlantic relations. No wonder Ambassador Zoellick warned the European Parliament in June 2001 that such action would be like a "nuclear bomb" on transatlantic trade!

Zoellick and Pascal Lamy understood that neither could achieve their objectives if they worked at cross-purposes. Settling the long-running dispute on bananas demonstrated that they could solve problems in a pragmatic manner; avoiding new retaliation on issues such as FSC and the US "carousel" law also signaled their intent to adopt alternative dispute settlement procedures that could develop practical solutions to trade problems in a more timely manner and thus avoid the acrimony and "winner-take-all" results of trade litigation.

US-EU efforts have borne fruit. Both sides have worked closely together to promote a new WTO round, even though significant differences remain on key agenda items. Perhaps the biggest US-EU differences involve food safety standards and the application of the "precautionary principle" and the extent of cutbacks in agricultural export subsidies. But both trading powers agreed at the Genoa Summit in July 2001 "to support the launch of an ambitious new Round of global trade negotiations with a balanced agenda" and to help developing countries take better advantage of the new trade opportunities created by WTO accords by providing them greater technical and financial assistance. These good words now must be backed up by concrete action.

The second key challenge for US trade policy is to get the developing countries to agree to launch a new round. After Seattle, developing country trade officials had been making grandiose demands of industrialized countries to accelerate liberalization of their trade barriers and to exempt poorer countries from some obligations of the Uruguay Round agreements. Such speeches were harmless given the lack of US-EU cooperation on a new round. But now that the big trading powers have reengaged, the tone of the trade debate has changed. The focus of discussions no longer is *whether* a new round should be launched but rather *how* the negotiating agenda should be crafted to reflect the priority concerns of all the member countries.

In that regard, it is important to understand that there is not a monolithic position held by developing countries. The interests and priorities of Latin American and Caribbean countries differ markedly from those of African and Asian countries. Indeed, these countries often are key competitors with each other! So when the United States or European Union offers trade preferences or other special treatment for developing countries, much of the gains for one group of developing countries will come at the expense of another. Similarly, quota liberalization will help some competitive suppliers in developing countries while hurting others that have benefited from the guaranteed access afforded by the quotas. Remember that when you hear an Indian trade official demand accelerating the phase-out of clothing quotas; most developing countries would do better with the restrictive Multi-Fiber Arrangement (MFA) than in open competition with Chinese firms.

Developing countries generally maintain much higher barriers to trade than the Quad countries and thus will be asked to make larger changes in their existing policies and practices. From the mercantilist perspective of trade negotiators, such an asymmetric bargain may seem unfair-even though those countries would benefit the most in terms of national welfare gains. But for political economy reasons, developing country negotiators need to demonstrate that they are getting something in return for their trade "concessions". For that reason, the Quad countries need to show their goodwill in several concrete ways:

- by addressing implementation problems with more technical assistance (as promised at Genoa) and more forbearance of WTO dispute procedures;
- by narrowing the scope of negotiations on issues such as investment and competition policy;
- by integrating the efforts of various international organizations that deal with labor issues and delinking those discussions from WTO enforcement procedures;
- and, most importantly, by putting their own trade barriers on the negotiating table.

How can this be done? Let me conclude with a possible scenario for Doha that would meet the strategic goals of the United States and satisfy the priority concerns of the developing countries.

A Possible Doha Compromise?

From a US perspective, the Doha Declaration launching a new WTO round will have to meet two tests:

- First, it will have to address the broad range of issues of concern to the diverse US political constituencies needed to forge a bipartisan coalition in support of new trade negotiations. This means that agricultural subsidies, industrial tariffs, and key service sectors will need to be on the table to satisfy US business interests; labor and environmental issues cannot be ignored; and talks on existing WTO accords on antidumping and intellectual property must be narrowly focused. In this regard, the WTO must find some formula by which it can work on the so-called social issues in conjunction with other international organizations.
- Second, the agenda needs to address the priority concerns of developing countries without committing to slaughter the sacred cows of US trade politics. This means that all US trade barriers- including antidumping--will have to be subject to market access talks, even though the "price" of reform of some of the most notorious measures may be quite steep. Attempts to exclude specific products or sectors, or specific trade practices like antidumping, would provoke reciprocal withdrawals by other countries that would seriously devalue the negotiations and damage the WTO itself. As a practical matter, wholesale reform of US antidumping law is very unlikely but incremental reforms and tariff cuts in sensitive areas like textiles are possible, *if* a big package of global trade reforms can be worked out.

For the Doha ministerial to succeed, Zoellick will have to reconcile the antipodal objectives of the developed and developing countries. In my view, the Doha Declaration will have to set out a broad agenda with general negotiating objectives. After all, it is the job of the negotiators to explore what can and cannot be agreed by the participating countries and then focus the talks on those issues from which they can construct a balanced package of agreements.

The Declaration should comprise three main areas: economic development, institutional development, and social development. The first should address traditional areas of trade reform (including tariff peaks and farm subsidies) as well as updating the WTO rules in areas such as services and intellectual property (and possibly investment and competition policy). The second should address reforms to the dispute settlement mechanism, the WTO's management and decision-making processes, and WTO links with other international organizations. The third should cover the contentious issues of labor and the environment. The labor agenda should be tied closely to the work in the ILO on the social implications of globalization and organize a consortium of international agencies, under the direction of the ILO, to coordinate work of their respective secretariats. The environmental agenda, by contrast, should be able to specify a narrow set of issues (e.g., conformity of multilateral environmental agreements with the WTO; reduction of environmentally unfriendly subsidies) that could be dealt with under existing WTO provisions. Together, these three issue areas cover the priority concerns of both developed and developing countries and should afford negotiators enough flexibility to craft a balanced package of agreements.[6]

Only in a few areas should the terms of reference of WTO talks be specified in detail or narrowly limited. First, the Declaration needs to address concerns that the Quad has not or will not fulfill its Uruguay Round trade reforms by reiterating the commitment to

---

[6] Schott (2000) provides detailed proposals on each issue on the post-Seattle WTO agenda.

phase out quotas under the Multi-Fiber Arrangement by the end of 2004 at the latest. Second, the Quad needs to address problems with implementation of "old" rulemaking obligations by pledging technical and financial assistance to those countries with demonstrable need in meeting the obligations of the WTO accords on investment and intellectual property rights. Third, the Declaration should assuage developing country concerns that they may be forced to bite off more than they can chew in "new" rulemaking areas by specifying what can and cannot be covered in talks on investment and competition policy. Fourth, the Declaration needs to spell out the role of the WTO in conjunction with the International Labor Organization (ILO), multilateral development banks, and United Nations agencies in developing initiatives to strengthen compliance with the ILO's core labor principles. Finally, the Declaration needs to address food safety concerns of the European Union (e.g., genetically-modified foods) and the United States plus many developing countries (e.g., abuse of safety standards for protectionist reasons) by calling for an interpretative agreement on the parameters of the sound science rationale for those standards.

Launching a new WTO round at the Doha ministerial would conclude the easy part of the new US trade strategy-concurrent negotiations would then be underway in bilateral, regional, and multilateral forums. Then the hard part begins--sustaining and augmenting US public support for an open trade policy, and working with US trading partners to lower barriers to trade and to strengthen the rules-based trading system that has supported the tremendous economic growth of the postwar era. In that latter task, I know that the United States has a true partner in Europe.

References

Richardson, J. David and Karin Rindal. 1996. *Why Exports Matter: More!* Washington: Institute for International Economics.

Schott, Jeffrey J. 2001. *Prospects for Free Trade in the Americas*. Washington: Institute for International Economics.

Schott, Jeffrey J., ed. 2000. *WTO After Seattle*. Washington: Institute for International Economics.

Schott, Jeffrey J. and Barbara Oegg. 2001. Europe and the Americas: Toward a TAFTA-South? *World Economy*, June.

United States Trade Representative (USTR). 2001. International Trade Legislative Agenda, May.