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## ECONOMIC NEWS UPDATE

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President Bush decided to turn the protectionist tide that has been rising for some months, during which time the protectionists have had a good run. They have forced the US and the EU to restrict apparel and textile imports from China, and managed to stall progress in reaching key trade-opening agreements before the crucial December meeting of the World Trade Organization (WTO) in Hong Kong.

So the president decided to make a dramatic offer -- a major reduction in trade-distorting agricultural subsidies. America has offered to cut by 60% the \$19.1 billion it spends on agricultural subsidies if the EU will cut its \$75 billion of permitted subsidies by 80%. Moreover, America is proposing sharp reductions in tariffs on imported agricultural products, with the aim of eventually eliminating these tariffs and, indeed, all trade-distorting measures.

This took some political courage by Bush, who risks antagonizing still another voting bloc -- farmers and large agribusinesses -

- at a time when his support seems to be seeping away because of events in Iraq, hurricanes in the Gulf Coast, and the unfortunate nomination of an unqualified crony to the Supreme Court. Already, Saxby Chambliss, the Georgia Republican who chairs the Senate Agriculture Committee, has warned the President that he will rally his colleagues to deny approval to any deal that bargains away farm subsidies. This, despite that fact that most of the benefits accrue to a handful of non-needy corporate farmers.

Worse still, from the President's point of view, was the coincidence of two reports late last week. First, the government reported that the trade deficit for August had widened to over \$59 billion, its third highest level on record. The deficit with China hit a record of \$18.5 billion, as consumers snapped up made-in-China cell phones, videos and toys.

Second, as if to pour gasoline on the flames, Treasury Secretary John Snow announced from Shanghai that Bush will be patient

with the Chinese even though they have only revalued their massively undervalued currency by a mere two percent. This disappointed many in congress who think that a 27.5% upward valuation is needed to bring China's yuan more into line with what a free market would produce. Led by New York's Chuck Schumer, they will undoubtedly make their voices heard when the Treasury files its mandated report next month, in which it is determined to find some reason not to label China a currency "manipulator."

Bush may have lost his gamble. Unfortunately for the cause of freer trade, EU Trade Commissioner Peter Mandelson, who had managed to start what is now known as the "bra wars" when his restrictions on Chinese imports resulted in the embargoing of bras designed to match panties already in European warehouses, was in no position to respond to the US offer in kind. According to The Economist, the cuts he offered were "less deep, and their scope less wide," and the exemptions sought by the EU (180 products would be treated as too "sensitive" to be opened to competition from imports) would wipe out more than 75% of a successful trade negotiating round. Pascal Lamy, director-general of the WTO, is reported by the press to have reckoned that the US proposal is five times as ambitious as is the EU response

To make matters worse, the so-called Group of Ten, which includes Switzerland, Japan and Taiwan, made an even more niggardly counter-offer. Accepting the US proposal, said Switzerland's

economy minister, Joseph Deiss, would "wipe agriculture out of our landscapes."

Mandelson has two problems, one at home, one in the United States. The French think that even his ungenerous offer goes a step too far in exposing their farmers to competition. For all their talk about helping the undeveloped world, France is unwilling to do the one thing that will help the poorer countries most: open Europe's richer farmers to competition from the developing world's poorer ones.

France is not alone: half of the EU member states share its protectionist bent. Certainly, a shaky coalition government in Germany, with a vice chancellor (Franz Müntefering) whose lack of dedication to free markets was recorded when he called financial investors "locusts", is not in any position to blaze a path to reform of the EU's protectionist agricultural policies.

The EU Trade Commissioner's problem in the US is that he is not considered a trustworthy negotiating partner. Ever since he broke tradition by threatening to go over the head of then-US Trade Representative Bob Zoellick and have Prime Minister Blair ask Bush to overrule his own Trade Representative, and then took to the US media to denounce America's position rather than keep negotiations private, the American team has regarded Mandelson with less than the respect they accorded Lamy, his predecessor. Rob Portman, who succeeded Zoellick when the latter went on to become

Condoleezza Rice's second-in-command at the State Department, is said to have healed some of the old breach, but at best hostility has been replaced with wariness -- very different from trust.

If no agreement can be reached by the time of the WTO meeting in December, the round of talks, which began in Doha, Qatar, in 2001, will probably end in failure. The President's authority to negotiate a deal, and then put it to an up-or-down vote in congress, precluding special interests from picking it apart, expires in mid-2007. Bill Clinton couldn't get his trade-negotiating authority renewed during his second term, and it is not likely that Bush, by then increasingly a lame duck, would be able to do any better, barring some amazing reversal of his political fortunes.

President Bush told the United Nations earlier this year that "the surest path to greater wealth is greater trade." It doesn't seem as if he will have much company as he takes a stroll down that path. Had Britain not surrendered to the EU its right to determine its own trade policy, Tony Blair might have kept Bush company. But that is not to be.

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