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ECONOMIC NEWS UPDATE

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7 April 2006

Rob Portman has a tough job. As United States Trade Representative (USTR) he does have the rank of ambassador, and a staff of over 200 (considered tiny by the standards of Washington's bloated agencies). That, and the fact that he is siding with the angels by fighting for freer trade, must be a comfort on a cold night after wearying negotiations with developing countries, some of whose grievances he knows to be legitimate, and with his EU counterpart, Peter Mandelson, ever-ready to, er, reinterpret the meaning of his most recent concessions.

Portman, mild-mannered and not given to hyperbole, characterizes the current trade environment as "a challenging time". He knows that the global Doha round is in serious trouble. If a deal cannot be struck by July 1, 2007, the president's authority to put it to congress on a take-it-or-leave it basis will expire, and with it the chance for congressional approval.

Two of the stumbling blocks are agriculture and services. President Bush has offered to eliminate all trade-distorting agricultural subsidies if America's trading partners will do the same. That has been greeted by the EU, with France in the lead, with as

much enthusiasm as French students have for private-sector jobs that don't promise life-time employment. Worse still, Mandelson has presented that position to Portman as non-negotiable. That leads Congressman Bill Thomas, a staunch free trader and ally of the President in his fight to open markets, to conclude that the US-EU differences are irreconcilable, "and when you have irreconcilable differences the best thing you can do is call it [the Doha round] off."

Services, which include everything from finance through lawyering and insurance, are one of America's strongest export sectors. In documents released last week Portman points out that the US runs a \$56 billion surplus in trade in services despite barriers erected by developing countries, and that liberalization of such trade "could account for fully 72% of the economic gain from the Doha round." But the developing countries are about as ready to open their insurance and other markets as the French are to abandon agricultural protection.

Although he still hopes to salvage the global Doha round, and the Australians are trying mightily to help him do that, Portman knows that his

best hope is to concentrate on bilateral rather than broader, multinational agreements. So he is relying on individual deals with countries that account for 54% of US exports. With good results: exports to those countries that have signed on have grown at twice the rate of exports to the rest of the world. More such deals are in the works, with countries ranging from Peru to Malaysia to Panama to Korea and – surprise – with the United Arab Emirates, home of Dubai World Ports.

That Portman can make such progress is a testimonial to his negotiating skills, and not only with America's trading partners. Nipping at his heels are environmentalists, who worry more about fish and forests than about the economic growth that freer trading brings, and on which environmental preservation ultimately depends, and trade unions, who disguise their protectionism by professing concern for the working conditions of laborers in Asia and Central America. The unions would have us stop trading with countries that fail to adopt the high-cost US standards that are inappropriate to their circumstances, and would surely make most developing countries uncompetitive in world markets.

Then there is the US congress, some of whose members, their sights set on the November elections, are distinctly uneager to antagonize constituents that might be adversely affected by imports. Others profess worries about the national security implications of increased reliance on imports, and acquisitions of US firms by foreigners.

Finally, there is China. On April 20, China's President, Hu Jintao, will visit Washington. The date is significant,

because some time this month the Treasury must issue its semi-annual list of currency manipulators. It is doubtful that the approximately 3% rise in the value of yuan against the dollar, allowed by the Chinese since they relaxed the yuan-dollar peg, will satisfy congressional critics who want China included on the list, with retaliatory measures to follow.

Bush is concerned not only with the negative effects such retaliation would have on the economy – prices would rise, forcing interest rates still higher, creating pain for a softening housing market. He also fears that such targeted protectionism would dash his already slim hopes of converting China from a geopolitical rival into a partner in maintaining a stable world order.

So the administration has launched a campaign to play down the significance of America's \$202 billion trade deficit with China. Commerce Secretary Carlos Gutierrez told a business forum in Tokyo that America's robust economy has nothing to fear from China's low-cost manufactured products. Administration spokesmen also point out that many made-in-China products are produced in factories owned by US companies, and that products imported from China were manufactured elsewhere in Asia, and merely assembled in China.

The Chinese helped by inviting to Beijing two of their severest critics, Senators Chuck Schumer (Dem., New York) and Lindsey Graham (Rep., South Carolina), and persuading them that they will indeed revalue gradually. So the senators have agreed to delay their bill to levy a 27.5% tariff on Chinese imports.

But all is not sweetness and light. The US and the EU have followed the

imposition of quotas on several Chinese products (bras, panties, shoes, trousers) with an appeal to the WTO to declare China's tariffs on imported auto parts a violation of the organization's rules. More important, China's on-going massive theft of American intellectual property has the influential software and entertainment industries up in arms. They want the President to tell the visiting Chinese to respect their intellectual property rights or face a closing of the American market that is so crucial to China's ability to grow its economy, create jobs, and avoid a social upheaval that might create the sort of unemployment that the Chinese most fear – the turving out of office of the current regime.



THE SUNDAY TIMES

A version of this Update appeared in
The Sunday Times (London)