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ECONOMIC NEWS UPDATE

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“He that is without sin among you, let him first cast a stone...”. EU Trade Commissioner Peter Mandelson, secure in the knowledge that the Biblical interdiction doesn’t disqualify him as a first-stone-thrower, rushed to the television studios to blame the United States for the collapse of the Doha round of trade talks. Mandelson, those who follow trade matters might remember, antagonized first then-United States Trade Representative Bob Zoellick, and then his successor by rushing in print every time some confidential negotiation wasn’t going his way.

Mandelson conveniently ignored the fact that it was his EU masters, led by France, who forced Pascal Lamy, director-general of the 149-member World Trade Organization, to suspend the negotiations indefinitely after five frustrating years of trying to get the key players to agree on new trade-opening measures.

President Bush had offered such great reductions in trade-distorting agricultural subsidies (60% cuts over five years, followed by complete phasing

out) that Alexander Downer, Australia’s foreign minister, called it “a once-in-a-lifetime-opportunity that ought to be grasped.” France is in no mood to do such grasping, so the EU contented itself with such ludicrous offers as reducing tariffs on high-quality beef from an eye-watering 80% to a still-trade-blocking 61%, while retaining bogus health restrictions should any imports manage to climb the tariff wall. According to The Wall Street Journal, the French agricultural minister said, “I would prefer the negotiations fail rather than ... raise questions about ... agriculture.” So rich French farmers shot down a deal that the World Bank has been saying is crucial if poverty in underdeveloped countries is to be relieved.

France’s farmers had help from politically potent farm blocs in Japan and India. And American rice, corn, wheat and cotton farmers’ proved unwilling to surrender price supports that encourage them to glut markets that might otherwise absorb produce from poorer developing countries.

Still, America went further than other countries in offering concessions. As US Trade Representative Susan Schwab pointed out shortly after negotiations were suspended, the EU “has average agricultural tariffs twice those in the US and domestic supports three times greater than the US,” meaning that in the absence of major concessions its markets would remain effectively closed to the products of America’s far more efficient farmers.

Sherman Katz, of the Carnegie Endowment for Peace, says “All is not lost until all is lost.” But, even though Schwab says the suspension “doesn’t mean the US is giving up...”, resuscitation is unlikely, especially since many intended beneficiaries of freer trade, the developing countries, are not so sure that they want to see China completely unleashed. The so-called fast-track authority that allows the President to put any trade deal to the congress on a take-it-or-leave-it basis expires on June 30, 2007. The law requires him to allow congress 90 days to consider any agreement, so there is precious little time left for the negotiators to reassemble and iron out differences that have endured through five years of acrimonious meetings.

As with all such failed negotiations, there are winners and losers. The clear winners are the farmers of France and the rest of Europe, and small farmers in several other countries, most notably Japan, whose principal trade negotiator told the press that the failure of the talks “enabled us to avoid the worst scenario, in which a food importer like Japan is forced to widely open its market.” Translation: our small, inefficient farmers will continue to charge

consumers exorbitant prices without fear of attracting competition from abroad.

With no hope of expanding markets for their agricultural produce, advanced developing countries have retained their high tariffs on manufactured goods, and bars to imports of services. Brazil and India, for example, levy duties of around 30% on imported manufactures, to the disadvantage of companies in the US, Japan and South Korea, among others.

America is not likely to be the biggest loser. It has been running a massive trade deficit, one that now approximates 7% of GDP. Although opportunities to increase its exports would be in America’s interests, it is not at all clear that such reductions in barriers were ever on the Doha table. America’s agriculture is probably the world’s most efficient, it is a major winner in the competition to sell aircraft, and its audiovisual industry produces programs and films that the world’s consumers lust after. But a successful Doha round would not have done much for exports from these “three A” industries.

The EU was never going to open its markets to American foodstuffs, and even if it lowered tariffs a bit would continue to use health issues to bar imports from America. The state-sponsored Airbus consortium will continue to subsidize the development of new airliners until the WTO calls a halt, in proceedings quite independent of the Doha round.

And it is the pirating of audiovisual products and other intellectual property by China that is slowing exports, not tariff barriers. The Hay Group consultancy recently reported that pirating by Chinese companies is increasing at an annual

rate of 1,000%. It is common knowledge that pirated DVDs of American hit movies are available on the streets of Beijing for about \$1 before they are shown in American cinemas.

The Chinese authorities, who can sniff out a single dissident, can't seem to find the factories supplying goods based on stolen intellectual property, including all of the pirated software used by government agencies. Or agree to revalue their undervalued currency.

Meanwhile, America goes ahead with its program of negotiating bilateral agreements to open markets for insurers and other financial services firms. Twelve Free Trade Agreements (FTAs) already are in force (with Chile, Singapore, Central America and Australia, among others), seven more are pending approval by congress or the other signatory, and eleven more are being negotiated. The lure of access to America's rich, free-spending consumers is an attraction many countries find sufficiently irresistible to persuade them to open their own markets to American products, even with Doha a failure.

None of this is to say that the failure of the Doha round is of no consequence. But the US is better positioned than most to capitalize on available opportunities.



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