

The Balance Sheet of the Bush Administration's Multilateral Trade Negotiations

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Bush with the rest of G8 leaders.

Koichi Kamashida/Reuters

The failure of World Trade Organization (WTO) multilateral negotiations in the Doha Round has once again demonstrated the increasing difficulties faced by those attempting to advance in new facets of trade between countries with unequal levels of development.

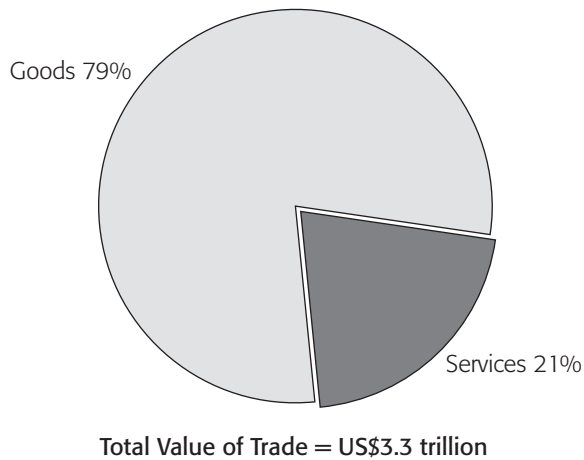
The outcome of the multilateral negotiations—held in July of this year—also reflects the growing economic and negotiating power of emerging nations, particularly the group made up of Brazil, Russia, India and China, known as BRIC.

Together, these countries defend the sensitive areas for their national goods and producers in the challenging international context marked by the world food crisis and turbulence in international financial markets.

On this most recent occasion, negotiations in Geneva collapsed when the main countries involved were unable to bridge their differences in regard to the so-called Special Safeguard Mechanism, which would allow countries to raise tariffs to protect themselves from massive imports of one or more agricultural products. India and China in particular sought protection for their crops (cotton, sugar and rice) while the

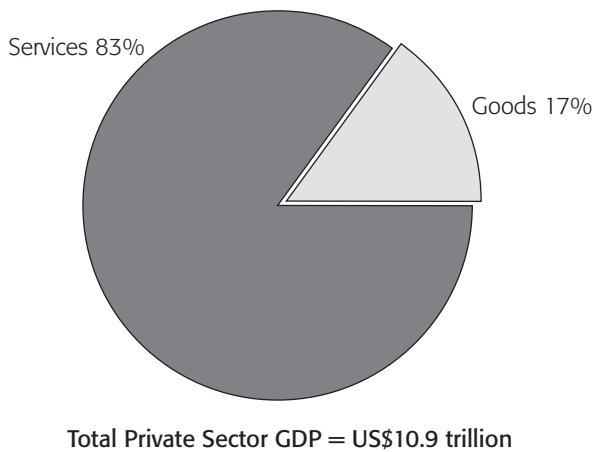
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Graph 1. Value of U.S. Cross-Border Trade by Sector (2005)



Source: U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business* 86, no. 10, 75.

Graph 2. U.S. Private Sector Gross Domestic Product by Sector (2005)



Source: U.S. Department of Commerce, Bureau of Economic Analysis, "Gross Domestic Product by Industry," *Industry Economic Accounts Database* (October 2006).

United States and Europe refused to make concessions to limit their many agricultural subsidies.

Also addressed at the latest ministerial WTO conference were other aspects related to trade liberalization of goods and services. Negotiations on these issues, including the possibility for opening up certain sectors in the areas of services, telecommunications, transportation, and banking and consultation services, have been repeatedly postponed.

A determining factor in the U.S. economic boom during the 1990s was the collapse and disappearance of the Soviet Union, which reinforced the positions held by Western economies regarding the validity and virtues of the market economy.

The failed negotiations reveal the differences between developed and developing countries with regard to how and how much to open up markets in areas in which trade in goods and services is still limited.

For the United States, but especially for the Bush administration, the recent failure in Geneva will be the last unsuccessful outcome of the trade policy implemented over the last eight years. During this time trade policy was given only secondary priority on the foreign policy agenda, with geopolitical interests dominating.

The Bush administration's top political priorities, including security, must be considered when evaluating its trade policy. It is also necessary to consider some prevailing circumstances in the international context that Bush confronted practically from the moment his first presidential term began. And also important are circumstances from the previous years when William Clinton was president for two terms characterized by economic and trade expansion.

A determining factor in the U.S. economic boom during the 1990s was the collapse and disappearance of the Soviet Union in 1991. This not only radically modified the U.S. geopolitical perspective—with an end to the communist threat—but also reinforced the positions held by Western economies regarding the validity and virtues of the market economy, in comparison to the inefficiency of the economic alternative proposed by real socialism. This explains the long period of economic growth in the United States during the 1990s, but it also explains the emphasis in the geoeconomic vision of the world on geopolitical considerations that prevailed for several decades during the Cold War.

The United States promoted free trade, particularly through multilateral negotiations within the institutional framework created in the context of the General Agreement on Tariffs and Trade (GATT). However, beginning in the 1980s, during the Reagan administration, the United States introduced a series of trade initiatives, both unilateral and bilateral in nature, aimed at achieving its economic objectives, specif-

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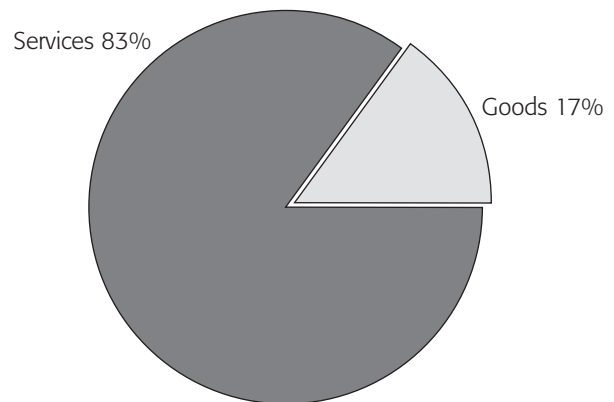
ically to protect its market and gain access to foreign markets. In accordance with a “multiple-track” strategy, a number of trade agreements were signed during the 1990s, the Uruguay Round was concluded (reducing trade barriers) and NAFTA was signed, linking Mexico’s and Canada’s economies even more closely to their powerful neighbor.

The international climate during the 1990s was favorable for promoting trade negotiations at all levels, and for U.S. representatives it was fundamentally important to accelerate trade liberalization in sectors that were lagging behind. At the multilateral level, the agenda for the Uruguay Round of GATT negotiations (which began in 1986 and ended in 1994) already included aspects of trade in the service and high-tech sectors and protection of intellectual property rights —issues not yet addressed jointly.

Also defined within this institutional framework was what would become the General Agreement on Trade in Services (GATS) in the recently created WTO. The forms of trade in services were defined in this agreement, including trans-border movement of information. Trilateral negotiations —within the framework of NAFTA— included regional integration of services, with special emphasis on liberalizing the financial and telecommunications markets. Consequently, whether negotiations were at the multilateral, bilateral or regional level, the United States addressed the issue of trade in services, since this sector was consolidating in its economy.

The WTO held its 1999 summit in Seattle, Washington. The Clinton administration ignored the requests from several developing nations to review anti-dumping mechanisms, poor countries’ access to markets in developed economies, and the elimination of agricultural subsidies. Instead of addressing these requests, the United States promoted an agenda based on its own interests, including trade in financial services, information technologies and aeronautics. These divergences led to the summit’s failure, presaging the difficulties that would confront the Bush administration at the multilateral negotiations that began only months after the

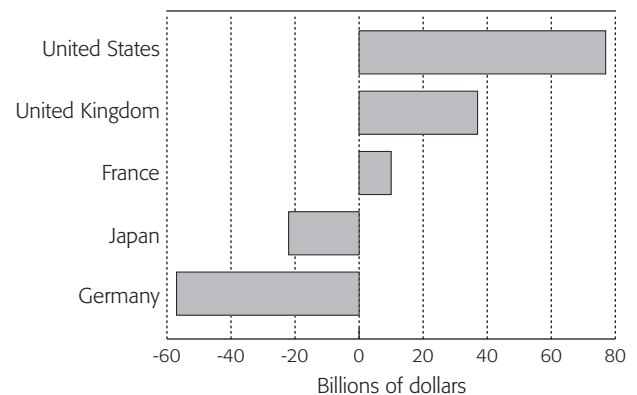
Graph 3. U.S. Private Sector Employment by Sector (2005)



Total Full-Time Equivalent Employees =
106.9 million workers

Source: U.S. Department of Commerce, Bureau of Economic Analysis, “Full-Time Equivalent Employees by Industry” (February 2007).

Graph 4. Services Trade Balances of Leading Exporting Countries (2005)



Source: World Trade Organization, “Leading Exporters and Importers in World Trade in Commercial Services, 2005,” *International Trade Statistics 2006*.

September 2001 terrorist attacks. However, these violent events would mark the beginning of a stage in which security and geopolitical issues would once again dominate other matters on the U.S. foreign policy agenda.

With the proposal of beginning the Doha Round in November 2001, the United States attempted to regain leadership in the multilateral arena —although it did not abandon negotiations for bilateral trade agreements, for which Bush was given “fast-track authority.”¹

The international context would suggest that trade policy will not likely be a priority for the next president. Still, the trade policy option established in the U.S. in the future will have a profound impact on the world.

Between 2001 and 2004, the Bush administration maintained intense activity in the area of bilateral and regional free trade agreements. Only some of these negotiations were successful, however, and the general opinion was that they were limited in scope, and diverted attention and resources needed to reach multilateral agreements. Nevertheless, in the multilateral negotiations, the issue of agricultural subsidies—especially for cotton—became an insurmountable obstacle. The differences among more than 20 developing countries—led by Brazil, China and some African nations—and the European Union, the United States and Japan, specifically with regard to agricultural trade distortions, led to a breakdown in negotiations at the WTO meeting held in Cancún in September 2003. Later, the task of returning to the Doha agenda fell to Robert Zoellick, then-U.S. trade representative, who held meetings on the three continents to iron out differences resulting from the Cancún negotiations.²

Despite the complications encountered in renewing multilateral negotiations (four attempts in five years), international trade in services and agricultural goods was vitally important for the United States. Specifically, its advantageous position in these areas could help to reduce its trade deficit in the area of manufactured goods. The United States is a great exporter of services, with an outstanding surplus in professional and technical, financial and other knowledge-related services. In 2006, this type of trade resulted in a surplus of more than US\$80 billion, while the deficit in goods trade was as high as US\$840 billion. This disproportionate relationship explains why the United States has sought, since the 1980s, to include these sectors on the trade agenda at the multilateral level (Graph 4).

We need only remember that the United States was the first nation to go through a structural change to a service-based economy. Around 1950 more than half of its work force was involved in tertiary activities; however by 2007, the services sector accounted for 85 percent of employment in the private sector and 83 percent of the country's gross domestic

product (GDP) (Graphs 2 and 3). Therefore, the possibility of expanding markets for services is vitally important for the United States, since world trade in services is much lower than international trade in goods (Graph 1).

CONCLUSIONS

With the failure of multilateral negotiations in Geneva, we witnessed the end of a series of unsuccessful actions in international negotiations initiated by the Bush administration in the areas of services and agricultural goods. One might expect an expansion of bilateral trade agreements in the future; however the fragmentation of markets would limit U.S. trade potential in the goods and services areas in which it is highly competitive.

The Bush administration's results in economic and trade matters were not satisfactory, and the international community is awaiting the outcome of the November 2008 elections, after which new policies are expected. Nonetheless, the international context would suggest that trade policy will not likely be a priority for the next president. Still, the trade policy option established in the United States in the future will have a profound impact on the world. We may see the initiation of a stage of greater protectionism, or emphasis may be placed on rebuilding a deteriorated global trade system to consider possibilities for development for all countries. ■■

NOTES

¹ Through this mechanism, the U.S. Congress approves or rejects a trade agreement without making changes. It is important to mention that the executive branch had not enjoyed this authority since 1994. See Sara J. Fitzgerald, *Needed: A New Vision for U.S. Trade Policy*, The Heritage Foundation, April 30, 2002, <http://www.heritage.org/Research/TradeandForeignAid/BG1543.cfm>.

² In January 2004, Zoellick sent a letter to representatives of 146 countries in which he proposed to move forward with multilateral negotiations on the issues of agricultural subsidies and access to markets, and in the area of goods, he proposed a flexible formula for decreasing tariffs on manufactured goods. Lastly, he offered technical assistance and services for developing countries.