

Preserving the Global Trading System

Jeffrey J. Schott assesses the Obama team's trade agenda as it prepares for the rising threat of global protectionism.

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Steve Weisman: Welcome to Peterson Perspectives. This is Steve Weisman at the Peterson Institute for International Economics. Our guest today is Jeff Schott, a senior fellow at the Peterson Institute, formerly a US trade negotiator who's written frequently about the multilateral trading system and wrote a blueprint for the Doha round called *The WTO after Seattle*. Thanks for joining us today, Jeff.

Jeffrey J. Schott: A pleasure to be with you.

Steve Weisman: There's a lot going on in the world, a lot of discussion anyway, maybe not a lot of action on trade. The G-20 nations met in mid-November and promised not to engage in any protectionist measures. Yet we're hearing that countries as disparate as Indonesia, Russia, France, India, and Argentina are doing just that. How serious a threat is this to the global trading system?

Jeffrey J. Schott: The leaders, when they met in Washington back in the middle of November, were very concerned that trade measures taken—raising new trade barriers—could complicate the task of managing the recovery from the very deep global economic crisis that we're now in. So the leaders of the major trading nations said they wouldn't impose new trade restrictions, at least those that were not compatible with their obligations under the World Trade Organization. Those countries are the ones that count. Clearly, there are a number of smaller countries that are concerned about competition at a time when markets are shrinking, and they are trying to protect their employment and production at the expense of their neighbors, a "beggar-thy-neighbor" policy. Those types of policies are understandable for the poor, small countries but can do great damage by the big, globally engaged countries.

Steve Weisman: Remind us that at the beginning of the Great Depression, there was a round of protectionism that many experts say aggravated the downturn. Isn't that correct?

Jeffrey J. Schott: Yes. There are a lot more protections in the trading system today than existed back in the 1930s, but the process of tit-for-tat protectionism still can be costly and while perhaps not creating the type of global depression that we saw in the 1930s, it will make it much more difficult to manage recovery in 2009 and beyond.

Steve Weisman: Are any of the actions that these countries are taking or announcing in violation of World Trade Organization (WTO) rules?

Jeffrey J. Schott: Part of the problem is that we don't have a clear idea of what everybody is doing. The leaders in the G-20 committed not to undertake new protectionism. But there is no monitoring of that process. Gary Hufbauer and I here at the Institute have written recently about the need for third-party monitoring and mentioned that to leaders at the WTO and the World Bank who have the resources to look at what countries are doing with regard to their trade policies and post reports.

Steve Weisman: What have you heard from those two organizations about their receptivity to that idea?

Jeffrey J. Schott: They want to do it. Clearly, the WTO has constraints in terms of resources—the views of their members who are sensitive to having stones thrown at their glass houses. But I think there are going to be more postings on the websites of the WTO and the World Bank in the coming weeks. The question is, can this be consolidated and then analyzed so that leaders of the G-20, when they meet again in the United Kingdom in early April, have an understanding of how much damage is being done by violations of this standstill commitment.

Steve Weisman: But based on what we know so far, are these actions significant? Do they pose a significant threat to the trading system? Or are we only seeing scattered, minor actions?

Jeffrey J. Schott: So far, I wouldn't say they are a significant threat to the trading system. Actions by Russia have been significant for Russia, but Russia is not a big player.

Steve Weisman: What has Russia done?

Jeffrey J. Schott: They raised tariffs to protect their industries, but the problem is that it is creating incentives for other countries to emulate. If the United States, Europe, China, Japan, and others begin to take steps either by raising tariffs or by using subsidies in a way to distort trade and

investment, that will have a much more significant effect on the global economy.

Steve Weisman: What about depreciating currency?

Jeffrey J. Schott: There has, of course, always been a concern about competitive devaluations to maintain an advantage for your exporters. We're seeing quite volatile swings in currency markets and indeed, in ranges that swamp the effects of any prospective tariff cuts that would come out of global trade negotiations. One has to be quite sensitive to that. But I think that's being driven by problems in the capital markets much more than concerns about short-term advantage and expanding exports.

Steve Weisman: The WTO made an effort earlier this month to revive the Doha round, which the G-20 leaders also suggested might be something worth trying. Has anything come of those efforts?

Jeffrey J. Schott: There was significant progress made in the Doha negotiations between July and the end of the year. But this is progress that is measured on a Geneva standard. In terms of the technical details of the evolving global trade agreement that's been under negotiation for seven years, not enough progress has been made to get ministers together for the breakthrough needed to get into the next stage of negotiations, the hard give-and-take on particular products and sectors. I think Pascal Lamy, the head of the WTO, made the right choice in saying, "We shouldn't bring ministers to Geneva for an effort that is unlikely to succeed and that could make it much more difficult to use that process again in the future when it's needed for big breakthroughs in the Doha negotiations."

Steve Weisman: Of course, in the United States, there will be a new trade minister after January 20. President-elect Obama has announced the appointment of Ron Kirk, the former mayor of Dallas, as the United States Trade Representative. What does his record tell us about the administration's receptivity to bargaining in a new Doha round?

Jeffrey J. Schott: I think the first thing to say is that Mr. Kirk will be working off the Obama playbook. That playbook has been written in the Democratic platform and in the speeches that the president-elect has made. In this sense, the US trade representative will not be making new policy. He will be executing the policy of the White House. But I think he and the president-elect share a centrist, internationalist perspective on trade. Being mayor of a big city, Dallas, in a state that is highly dependent on trade, such as Texas, I think Mr. Kirk understands very well the importance of maintaining an open trading system and of expanding

US export opportunities and, at the same time, dealing with the very important adjustment issues, concerns by both workers and communities that are faced in regions around the country.

Steve Weisman: Of course, he won't be the only one advising President-elect Obama on trade policy. There is a new commerce secretary, Bill Richardson of New Mexico, and others. You think that in spite of skepticism announced on trade deals during the campaign, the new president might well be receptive to trade deals?

Jeffrey J. Schott: My take on what the democratic platform has said and what President-elect Obama has said in his speeches is that it is a much more positive and nuanced approach toward trade negotiations. It's not that trade negotiations shouldn't be considered and pursued, but that the priorities of those negotiations should be recast to ensure that they serve the interest of American firms and workers. I think that can be done in a way that our trading partners will find advantageous.

Steve Weisman: How important is it that an international trade agreement under the Doha round, which as you said began seven years ago, be completed in the coming weeks and months?

Jeffrey J. Schott: I think it's critically important that we have a successful conclusion of the Doha round, both for the economic benefits that can be accrued to avoid the protectionist backlash, which inevitably will occur if it fails, and to ensure that we continue to be able to benefit from a strong and effective multilateral, rules-based trading system. It is very difficult to see how that system could continue to operate effectively in the event of a failed negotiation, and we've never had a failed negotiation in the entire post-war period. This would be quite a dramatic blow to using the multilateral forum to conduct trade relations. So I think one of the first things that the Obama administration needs to do is to signal its intent and its commitment to continue to pursue intensive negotiations in the Doha round with the view to having a balanced, ambitious outcome within the next 12 to 18 months. That may seem like a long period of time, but I think that's the period of time that it would take to do the hard, line-by-line negotiations necessary to get the deal done on agriculture, on manufacturing, and on services. We need progress in all three areas and we haven't seen very much, certainly in the services area.

Steve Weisman: Mr. Obama expressed more skepticism of bilateral free trade agreements than of global trade agreements, correct?

Jeffrey J. Schott: That's correct. He spent a lot of time focusing on NAFTA and the need to improve NAFTA. That agreement was state-of-the-art when it

was negotiated 15 years ago but we've learned a lot since then. The world economy has changed quite a bit since then. NAFTA could stand some upgrading and some retooling to make sure that all three countries can better meet the challenges of the global economy in the 21st century, and I think that's doable. I've talked to high officials in the Canadian and Mexican governments and they understand the need to use NAFTA as it was supposed to be used—to help improve the competitiveness of national firms and workers.

Steve Weisman: Jeff Schott, thank you very much for joining us today on Peterson Perspectives.

Jeffrey J. Schott: Thank you very much.