Requiem or Revival?

The Promise of North American Integration

Isabel Studer
Carol Wise
Editors

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For Olivier,
and to the memory of George Graham

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U.S. Trade Politics during the Doha Round

I. M. ("Mac") Destler

On July 24, 2006, Pascal Lamy, director-general of the World Trade Organization (WTO), declared the Doha Development Round of global trade talks "suspended" because of the failure of the principal parties to reach agreement on agricultural trade. Then, on November 7, 2006, the domestic political context for U.S. trade was transformed as Democrats won control of the Senate and the House of Representatives in the midterm elections. No longer could President George W. Bush rely on partisan majorities and Republican control of congressional procedures to sustain his trade policy. Thus both abroad and at home, U.S. trade policy was entering a challenging new era.

The preceding years had featured important changes as well. On March 17, 2005, Bush had announced the appointment of Representative Rob Portman (R-Ohio) to serve in the Office of the United States Trade Representative (USTR) during his second term. This designation ended months of anxiety in the trade policy community, which watched as all other cabinet-level positions were filled and no word emerged about this key position. The choice was warmly received: "You couldn't have a person with a better relationship with Congress and the President," declared Benjamin L. Cardin

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(D-Md.), ranking Democrat on the House Ways and Means Trade Subcommittee. A trade lawyer before his election to Congress in 1992, Portman easily won Senate confirmation.

Portman succeeded Robert B. Zoellick, who compiled a formidable record of achievement despite having a suboptimal relationship with both Congress and the White House. Neither a confidant of the president nor popular on Capitol Hill, Zoellick still won broad respect for his trade expertise and international negotiating skills. Pursuing a strategy of "competitive liberalization" during his tenure as USTR, Zoellick had negotiated free trade agreements (FTAs) with Singapore, Chile, Australia, Morocco, Central America/Dominican Republic, and Bahrain, with the first four winning easy congressional approval. He also played a key role in launching and advancing the Doha Round of multilateral trade talks under the WTO. Zoellick became deputy secretary of state in the second Bush administration.

His successor inherited a full plate. Record U.S. trade imbalances—worldwide and with China—had heightened congressional concerns about the performance of U.S. trade. Portman's first challenge was to secure congressional approval of the Central American Free Trade Agreement (CAFTA)—actually CAFTA-DR, since its broadening to include the Dominican Republic—which passed narrowly after a very acrimonious debate on Capitol Hill. Decade-long negotiations for a Free Trade Area of the Americas (FTAA) remained stalled, with the January 2005 deadline for agreement now history. Most important for U.S. interests, the Doha Round talks needed major additional attention and effort—including the offering of important new concessions by the United States.

In the fall of 2005 Portman responded to this need with a substantial offer to break the deadlock in the Doha agricultural negotiations and with an impressive performance at the December 2005 WTO Ministerial Meeting in Hong Kong. But other major trader states met him less than halfway, and Doha remained in jeopardy when President Bush, desperate to reinvigorate his flagging administration, announced in April 2006 that he was moving Portman from the trade office to the key position of director of the Office of Management and Budget.[1] Chosen to replace Portman was Deputy USTR Susan Schwab, a seasoned trade professional with senior staff experience on Capitol Hill.

Both Portman and Schwab undertook their responsibilities in a U.S. trade policy environment that had changed in fundamental ways over the past fifteen years.

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Where's the New Protectionism?

In the 1980s, driven by a strong dollar, the U.S. merchandise trade deficit soared to unprecedented, twelve-digit dimensions. Industry after industry was hit and demanded new trade protection: textiles, steel, autos, shoes, machine tools, semiconductors, and so on. The Reagan administration resisted to some degree but also granted some form of trade relief to most of them.

The trade deficit receded late in that decade, facilitating compromises in (and enactment of) comprehensive trade legislation in 1988. The trade deficit dropped below U.S.$100 billion in 1991 and 1992 and then grew slowly through 1997. Thereafter it skyrocketed—from U.S.$198.1 billion in 1997 to U.S.$452.4 billion in 2000 and U.S.$782.0 billion in 2005.[2] In that year, the United States imported U.S.$1.674 trillion in goods and exported just U.S.$892.0 billion.

In absolute terms, this latest U.S. trade deficit dwarfed the U.S.$159.6 billion that had triggered so much anxiety in 1987. But total U.S. trade had soared also, roughly tripling between 1987 and 2000. As a proportion of trade, the deficit was comparable in those years: 24.0 percent in 1987, 23.0 percent in 2000. But it reached a new peak of 30.0 percent in 2005, meaning that the country imported more than U.S.$9 in goods for every U.S.$5 that it exported. As a proportion of GDP, the deficits of the early twenty-first century also came to exceed their counterparts in the 1980s, reaching a record 6.2 percent in 2005.

These trade deficits are a macroeconomic phenomenon, and the proximate causes vary.[3] Throughout, they have reflected the disagreeable fact that U.S. citizens are saving too little and consuming more than they are producing. But such lofty macroeconomic explanations have been no consolation to U.S.-based goods producers, who have felt the heat all along. And for them, the new deficits are at least comparable to those of the 1980s.

Yet the domestic political response to the more recent ballooning of the U.S. deficit has been very different. In the first period, multiple industries sought protection, Congress seized the initiative in trade policy, and many experts trembled over whether the open U.S. trade regime could survive. In the second period, only one important dog barked—the steel industry. It had won comprehensive (if temporary) protection under Reagan in 1985 in the form of a number of export restraint agreements with key producers. It won no such protection under Clinton (aside from a number of antidumping cases), and just twenty-one months of relief from the current Bush

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administration, which imposed tariffs on a range of steel products in March 2002 but removed them in December 2003, after the WTO ruled them illegal.

Antidumping cases have continued in the 2000s, but they haven't increased, and half of them continue to be initiated by the steel industry. The textile industry has certainly not become a free trade bastion. But with the phasing out of the Multi Fiber Arrangement at the end of 2004, its stance has shifted from limiting imports in general to maximizing the share of apparel imports made with fiber and cloth manufactured in the United States.[4]

Why weren't more injured claimants demanding and receiving import relief after 1995? One reason was certainly the overall strength of the U.S. economy compared with that of the mid 1980s: in the midst of economic prosperity and sound growth, campaigns for trade relief were harder to sustain. Another reason was the fading of Japan as the prime trade "adversary" of U.S. producers (though China seemed poised to take its place). But there was also precious little new business protectionism after the stock market bubble burst in 2000 and the economy entered into recession at the outset of the George W. Bush years.

Why has there not been more demand for new trade protection? The basic answer lies in what is commonly labeled *globalization,* the deepening international integration of the U.S. economy over recent decades. Goods production has in fact declined as a share of the total economy, from 43 percent in 1970 to 35 percent in 2000. But over the same period, trade in goods has grown from 4 percent to 10 percent of GDP.[5] Thus the ratio of trade (average of imports and exports) to goods production has risen even faster, from .09 to .29. Producers are exporting a larger share of their output and importing a larger share of their products' final value. And those who lag in exploiting the gains from international specialization face uphill competition from those who have learned to successfully exploit them.

In the context of a globalizing economy, a pure protectionist position becomes much harder for an industry to maintain, and support for open markets is easier to find. When in late 2003 the Bush trade team weighed how to respond to the WTO's finding that U.S. steel tariffs violated international trade rules, press reports highlighted the concerns of steel-user industries in key electoral states as much as they stressed the steel-producing interests in Pennsylvania, West Virginia, and Ohio. And the White House took the steel users' interests fully into account in its decision to remove the tariffs.

There remained entrenched pockets of protection, of course, most of them in the agricultural sector. The farm bill enacted in 2002 flew in the face

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of long-standing U.S. trade negotiating goals by increasing producer subsidies. Sugar survived under an import quota system that renders U.S. prices a multiple of those in the global market and makes domestic producers of corn sweetener competitive. Orange juice was another well-protected market that Brazil clamored to enter. The rigidity of the U.S. stance on sugar was made evident during various trade negotiations under way in 2004: Central America was granted minimal increased sugar access under CAFTA, and Australia was granted none at all in its FTA with the United States.

Lack of agreement over trade in both sugar and oranges has impeded the conclusion of a comprehensive FTAA agreement, and U.S. cotton subsidies have undercut the livelihoods of African farmers and helped trigger the breakup of the Cancún Ministerial of the Doha Round. In the spring of 2004 a WTO panel held that U.S. cotton subsidies were in excess of those allowed under the Uruguay Round agreements (a finding later affirmed by the appellate body).

These still-restricted U.S. markets remain barriers both to trade and to progress in trade negotiations, but they are now outliers in the overall U.S. economy. As recently as the 1980s it was plausible to argue that the threat of generalized, 1930's type protection was real and that concessions to one or two new industries could put the United States on a slippery slope. In the twenty-first century it is much harder to make this argument, as U.S. business is predominantly on the side of open trade.

Why, then, don't market-opening bills sail through Congress? The basic reason is that U.S. politics has become increasingly polarized along party lines, and this polarization has spread to trade policy (which was traditionally managed by a bipartisan, centrist coalition).

The Partisan Divide

In recent decades partisan polarization and interparty rancor has steadily, even relentlessly, grown in the U.S. Congress, in the House of Representatives in particular. This cleavage has been driven by broad national forces not directly related to trade policy. But it has undercut one of the enduring sources of support for trade liberalization: bipartisan leadership cooperation at the committee and chamber level.

Since 1981 the *National Journal,* a respected newsweekly focusing on government, has published sophisticated voter ratings placing every member of Congress on the ideological spectrum from liberal to conservative. The general pattern in the early years of these ratings was for most Democrats to

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cluster on the left side and Republicans on the right, with considerable overlap in the middle. By 1999, however, "for the first time" in the Senate, "every Democrat had an average score that was to the left of the most liberal Republican." In the House, moreover, *NJ* found that "only two Republicans . . . were in that chamber's more-liberal half on each of the three issue areas. . . . And only two Democrats . . . ranked in the more-conservative half."[6] Since then, the pattern has stayed essentially the same: two House Republicans (and no Democrats) met that criterion in 2004; just one Republican senator was more liberal than just one Democratic senator the same year.[7] Parallel data developed by political scientists underscore the same trend. In 1969–70, as noted by Sarah Binder, there was "substantial overlap between Democrats' and Republicans' right- and left-most members." A "large ideological middle dominate[d] the House." "Thirty years later, there is virtually no ideological common ground."[8]

Contrary to frequent press reporting, the polarization of Congress does not reflect a deep ideological divide among the public at large. Americans remain basically centrist: in 2004, at the end of a particularly contentious presidential election campaign, 71 percent of survey respondents described themselves as being in the ideological middle.[9] Morris Fiorina demolishes the "myth of a polarized America" in a brilliant short book that gives particular attention to the divisive issues of abortion and homosexuality. Most citizens are ambivalent about these and other public issues, in Republican as well as Democratic states. We have, he concludes, "centrist voters and polarizing elites," and the latter have taken control of the political process in what he labels "the hijacking of American democracy."[10]

Why has Congress come to reflect the polarized elite activists rather than the centrist public? One powerful force has been regular congressional redistricting. Once the Supreme Court ruled in the 1960s that congressional districts within a state have to have substantially equal populations, the lines have had to be redrawn after each decennial census. Politicians naturally shaped this process with an eye toward their own survival. This meant more "safe" districts (strongly Republican or Democratic) and fewer competitive districts. In a competitive district, candidates fight for the votes of the citizens in the center, so the representative is driven toward courting the median voter. In a one-party-dominant district, candidates are virtually assured of reelection provided they can win renomination. So candidate priorities have shifted toward maintaining the allegiance of at least the median party member in the congressional district if not the median *activist* party member in the district, both of which move the candidate away from the center.

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Within the House, partisan polarization has had a major impact on how legislative business is conducted. Through most of the post–World War II period, committees dominated the process of developing and enacting legislation. The majority party ran them, but committee chairs reached for bipartisan support to improve the prospects for final passage. As parties became more ideological, however, the pattern changed. Increasingly, congressional party caucuses got into the business of shaping legislation. This was bound to cause problems for trade policy, which was politically dependent on strong, broad-based, bipartisan support in the Senate Finance and the House Ways and Means Committees. Traditionally, bills authorizing and implementing major trade agreements were worked out in subcommittees and full committees. Lopsided, bipartisan committee votes in favor of such bills paved the way for lesser, but solid, majorities in their parent chambers. And their strong role made these committees effective partners and interlocutors for successive U.S. trade representatives.

Cross-party, committee-based policy collaboration remained the congressional norm on trade well after it was fading in other policy spheres. The NAFTA battle was won through close collaboration between the Clinton White House and congressional leaders of both parties, with Republican whip Newt Gingrich (R-Ga.) and former senior Ways and Means member Bill Frenzel (R-Minn.) playing important roles. Increasingly, however, there were also occasions when Ways and Means Democrats excluded Republicans from important trade policy meetings (including the drafting of language to implement the Uruguay Round antidumping agreement in 1994).

Partisanship in the House became yet more intense when the Republicans took control following the 1994 election. House Speaker Newt Gingrich centralized policymaking and the selection of committee chairs, which were thereby pressed to respond first and foremost to party interests. On trade, partisan divisions were furthered by the commitment of unions, grassroots activists, and nongovernment organizations (NGOs) to the inclusion of labor and environmental standards in trade agreements. Democrats, who were most beholden to these constituencies, wanted such standards to be major negotiating objectives in authorizing legislation, particularly for bilateral and regional agreements; Republicans sought to exclude or minimize them on the grounds that such standards encroached too much on business and that trade agreements were not the proper venue for pursuing these objectives. This difference led Ways and Means Republicans under chairman Bill Archer (R-Tex.) to put together their own fast-track renewal proposal in 1995, while

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Democrats stayed on the sidelines, and to add changes to President Bill Clinton's 1997 fast-track renewal proposal designed to limit the inclusion of these issues under fast-track procedures.[11]

Bipartisanship made a modest comeback in 2000, in the struggle over granting normal trade status to the People's Republic of China upon its entry into the WTO. This was Clinton's last major trade priority. It had enormous business support and won by a relatively comfortable margin of 237 to 197, with seventy-three Democrats in favor. Overall, however, broader polarization continued in the House, with the result that committee members came to see their colleagues across the aisle not as colleagues but as antagonists.

Against this backdrop, it was hardly surprising that bitter interparty conflict reemerged in 2001, when the Bush administration sought renewal of fast-track authority (which it renamed trade promotion authority). This legislation, essential for major trade talks, authorizes the president to submit bills implementing trade agreements to Congress for up-or-down votes, without amendments. Two senior Ways and Means Committee Democrats, Charles Rangel (ranking member, D-N.Y.) and Sandy Levin (ranking trade subcommittee member, D-Mich.), made it clear that they wanted to work with the majority to develop a compromise bill. But the new, assertive committee chair, Bill Thomas (R-Calif.), decided instead to negotiate a "bipartisan" bill with a group of more junior Democrats led by Cal Dooley (D-Calif.). Rangel and Levin then led the bulk of their colleagues into opposition, urged on by organized labor and antiglobalist NGOs.

This led to the closest, bitterest, and most partisan vote on a major trade bill since World War II: legislation on Trade Promotion Authority (TPA) passed 215 to 214, with just twenty-one Democrats in favor and twenty-three Republicans against. When the initial tally indicated defeat for the legislation, House Speaker Dennis Hastert held the vote open for twenty extra minutes, until a South Carolina Republican changed from nay to aye in exchange for a promise to tighten rules-of-origin on textiles from the Andean region and the Caribbean.[12]

In the Senate, by contrast, there was constructive bipartisan compromise, with Democrats winning a major expansion of trade adjustment assistance for workers displaced by trade. This assistance included

—A new health insurance subsidy for eligible workers

—Coverage, for the first time, of "secondary workers" (producers of inputs to trade-impacted final goods) and of certain workers who lost their jobs due to relocation of plants overseas

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—A new, alternative program of "wage insurance" for trade-displaced workers taking lower-paying jobs

—A doubling of the funds authorized for worker retraining.[13]

With this addition, the legislation passed the Senate by a comfortable 66 to 30 vote. But although the bill emerged from conference with an expansion of trade adjustment assistance included, this only increased the House margin from 1 vote to 3 votes (215 to 212) and the number of favorable Democratic votes from 21 to 25.

The bill became law in August 2002. But winning this way was costly for trade policy. Since the House victory was built on a number of Republicans voting against their convictions and their constituencies, it cast doubt on the USTR's ability to win approval of controversial trade agreements in the future. And it inflated the power of those entrenched interests (like steel or sugar producers) that were determined to resist liberalization of their markets.

Competitive Liberalization

Still, for USTR Robert Zoellick, winning in this way was certainly better than not getting TPA legislation at all. He played a lesser role in lobbying for trade authority than had most of his predecessors, as congressional relations were not his forte. Rather, Zoellick's strengths were on the international bargaining side, where he more than held his own. For example, at the November 2001 WTO Ministerial Conference in Doha, Qatar, he was effective on both substance and tactics, making a U.S. concession early in the meeting to include trade remedy laws in the negotiating agenda and then joining with developing nations to strengthen the language on agriculture in the face of resistance from the European Union (EU). Not only did Zoellick play a critical role in launching the new global trade talks, he was also, as discussed below, a major player in both the problems and the progress of the Doha Round in 2003 and 2004.

Zoellick's main immediate use of the newly granted TPA, however, was the negotiation of a series of bilateral and regional FTAs. His predecessors had also pursued such deals, beginning with the U.S.-Israel and U.S.-Canada FTAs negotiated in the 1980s; these FTAs were seen both as an end in themselves for U.S. trade policy and as a means to generate pressure for concessions on global talks by signaling that the United States would pursue alternative routes if global trade talks failed. The final Uruguay Round/WTO compromise of December 1993, in fact, owed something to House passage of the NAFTA implementing legislation in November, followed immediately

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by Clinton's hosting the first summit meeting of leaders of the Asia-Pacific Economic Cooperation (APEC) forum in Seattle.

Zoellick expanded on this record, explicitly including political and strategic criteria in the choice of partner nations. The U.S.-Jordan FTA, completed under Clinton, was approved before TPA's enactment, but two deals initiated by Clinton (with Singapore and with Chile) were signed in early 2003 and brought up under the new TPA. (Chile had been promised such a deal since the Miami hemispheric summit of 1994, but the lapse of fast-track authority delayed the initiation of talks.) FTAs with Australia and Morocco were completed thereafter and were approved by Congress in July 2004. CAFTA was completed in late 2003, and the Dominican Republic was added in 2004 (CAFTA-DR). Talks were also initiated or ongoing with others, including Bahrain, the states of Southern Africa, Thailand, Panama, and the Andean countries of Colombia, Peru, Ecuador, and Bolivia. Finally, the Bush administration declared a long-term goal of creating a Middle East Free Trade Area.

Zoellick enveloped these initiatives in a broader strategy. In his own words, by combining global, regional, and bilateral negotiations, "the United States is creating a competition in liberalization, placing America at the heart of a network of initiatives to open markets." We will, he said, "proceed with countries that are ready" to open their markets, and success will create pressure on others.[14] Hence, in his view, FTAs were stepping stones to broader liberalization. Moreover, most FTAs were relatively popular with Congress and hence useful for muting partisan divisions. Finally, the success of the USTR in concluding this geographically diverse set of FTAs buttressed Zoellick's standing within the Bush administration. Zoellick was not a White House insider, nor was he close to the president; therefore, whatever credibility he achieved had to come from visible results. With the hemispheric FTAA talks flagging, and the Doha Round proceeding by fits and starts, bilateral deals kept his trade vessel afloat.

There was some skepticism about whether these specific FTAs provided leverage for broader negotiations. Deals with Latin nations might conceivably exert some leverage on Brazil, whose disagreements with the United States had become the prime obstacle to completion of the hemisphere-wide FTAA. But it was implausible that CAFTA-DR, for example, could generate the same pressure for progress on the Doha Round in the first decade of the twenty-first century that NAFTA and APEC had exerted on the EU at the close of the Uruguay Round in 1993, for the Central American nations were far less important in U.S. and world trade.[15] And while the domestic politics of securing congressional support for FTAs with smaller countries where U.S. trade was modest (Chile) or noncontroversial (Singapore) might be smoother,

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it was another matter for deals involving countries whose labor practices touched hot buttons in American trade politics. Hence CAFTA-DR, completed before the Australia or Morocco deals, was not brought to Congress until after the 2004 elections.

Cancún and Geneva

Whatever the trade and political benefits of FTAs, Zoellick realized that the completion of the WTO's Doha Round was paramount. Only in global talks could U.S. agriculture win major new market access, and only from its large trading partners could the U.S. economy add to its already considerable gains from economic openness. Only a substantial WTO deal on nonagricultural market access and services offered the possibility of reenergizing the protrade business coalition in the United States.

But the WTO was now an organization of 149 members, operating by consensus. And emerging economies like Brazil, India, Russia, and China were no longer willing to defer to the U.S.-EU duopoly that had historically prevailed over prior GATT trade rounds. Emerging economies were disappointed, they said, with their gains from the Uruguay Round, and they were upset by the rise in U.S. steel tariffs and the protectionist Farm Bill of 2002, which directly contradicted U.S. trade rhetoric in support of liberalization.

This more fractious global trade politics became manifest when, in preparation for the WTO's Cancún Ministerial Conference of September 2003, Zoellick struck a deal with his EU counterpart, Pascal Lamy, that committed to modest reductions in farm subsidies on both sides of the Atlantic. Emerging economies reacted suspiciously and refused to accept it as a basis for negotiation. Instead, Brazil joined with India and China in forming the Group of Twenty-One to demand deeper reductions in agricultural subsidies from the United States and the EU.[16] Then in the midst of the Cancún Ministerial Conference, a so-called Group of Ninety, driven by the concerns of African nations and egged on by activist NGOs, made more sweeping demands, including the immediate removal of U.S. cotton subsidies. Cancún was supposed to bring agreement, not on the final terms of the Doha Round but on the modalities, or ground rules, under which they would be hammered out. Instead, it ended in complete disarray, as the Mexican chair and host, seeing no prospect of compromise, gaveled the meeting to a close.

Initial reactions were sharp. Zoellick denounced the emerging economies in question as "can't do" nations (a label with some credibility because the G21

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and G90 nations had shown little readiness to offer concessions themselves). His EU counterpart, Pascal Lamy, labeled the WTO process medieval. But the Cancún collapse did raise a broader question: Could the institutions of liberal trade be maintained in a world in which economic power no longer resided overwhelmingly in the exclusive G7 club? By early 2004, however, tempers had cooled. Zoellick took steps to relaunch Doha discussions, working with both developed and developing nations and traveling to sub-Saharan Africa to facilitate compromise with (and among) the G90. A new group of five political entities—the United States, the European Union, Brazil, India, and Australia—helped to shepherd this process.

On August 1, 2004, following round-the-clock negotiations, WTO members reached agreement on what was labeled the July package: a document combining substantive and procedural accords on agriculture (and specifically cotton), nonagricultural market access, services, trade facilitation, and a range of development-related issues. Particularly notable was the commitment to end export subsidies for farm products. The talks, it appeared, were back on track, even if an actual Doha Round agreement remained a long way off. The original Doha deadline had been set for December 2004, but the various disruptions delayed the target date for substantial agreement until the Hong Kong WTO Ministerial of December 2005.[17]

In the meantime, U.S. trade authorities were coping with some losses in WTO dispute settlement cases. Like other nations, the United States did very well when it took other nations to this global trade "court." Twenty-two of the cases the USTR brought before the WTO as of December 31, 2004, were litigated to completion, and eighteen were decided in favor of the United States.[18] This added up to an impressive 82 percent overall success rate. But the United States was submitting fewer cases: under Bush, three a year, versus eleven a year under Clinton. Although U.S. submissions were lower, the frequency of cases filed against the United States increased from about eight a year under Clinton to nearly ten a year in the first four years of the George W. Bush administration.

In those cases in which the United States was the defendant, it was U.S. law or practice that was usually found wanting. In 74 percent (twenty-five of thirty-four) of WTO panel or appellate body decisions reached by January 2005, the United States was found in violation of its trade obligations.[19] Prominent among these were a European challenge to the U.S. system of subsidizing exports through favorable tax treatment, a U.S. law banning imports of shrimp not caught with turtle-excluder devices, and President

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Bush's decision in 2002 to impose section 201 (escape clause) safeguards on certain imports of steel.[20]

In the bulk of these cases, the United States complied with the adverse decision, although it often took time, especially if legislation was required. The most prominent exception as of the end of 2004 was the Byrd Amendment, which channeled the proceeds of antidumping duties to the coffers of the petitioners. The WTO authorized petitioning countries to levy penalty duties against U.S. products until the law was changed.[21]

From "Bob" to "Rob"—and Beyond

As the first term of President Bush came to an end, he and Zoellick could claim a creditable trade record. New authorizing legislation had been enacted, and a number of FTAs were concluded or in progress. Negotiations for an FTAA were stalled, but the Doha talks were alive and making some progress. Moreover, the president reversed his most protectionist act when he removed the steel tariffs in December 2003, and he maintained a free trade posture through the reelection campaign that followed. His opponent in the 2004 presidential race, John F. Kerry, complained about "outsourcing" of production and jobs by "Benedict Arnold corporations" during the Democratic primary campaign, but he did not press the issue once he had secured the Democratic nomination.

In the months after Bush's November 2004 election victory, however, trade seemed to disappear from the White House policy agenda. The USTR position went unaddressed, as the president replaced (or reaffirmed) all other members of his cabinet and as he announced the nomination of Zoellick to be deputy to the new secretary of state, Condoleezza Rice. Trade went unmentioned in the president's state of the union address, which centered on his proposal to restructure the Social Security retirement system. Anxiety over this high-level neglect spread within the U.S. trade policy community. Reports circulated that Bush might act to terminate the USTR's cabinet-level status. A president supposedly committed to free trade seemed to be undermining the institution with the statutory responsibility to pursue it.

On March 17, 2005, Bush moved to put an end to these concerns. In choosing Representative Rob Portman (R-Ohio), he named someone with whom he had personal ties, who had trade policy experience, and who had good relations with legislators of both political parties. The appointment in fact suggested a return to the long-standing USTR model and role. Portman could be expected to act as a policy broker at home and a negotiator abroad.

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While the House leadership as a whole was acting more partisan than ever, a thaw on trade policy now seemed possible within the House Ways and Means Committee.[22] Its senior Democrats had voted for all four FTAs that came before Congress in 2003 and 2004. Moreover, its Subcommittee on Trade had a new chairman, Clay Shaw of Florida, and a new ranking Democrat, Ben Cardin of Maryland, both of whom were moderates within their respective parties.

The major trade business of 2005, however, was CAFTA-DR, a particularly controversial agreement because of the labor practices of the Central American countries and what critics saw as inadequate provisions to address them; in particular, CAFTA did not commit these countries to enforce core labor standards as defined by the International Labor Organization.

In June 2005, before the CAFTA vote, the House rejected a resolution calling for U.S. withdrawal from the WTO—just thirty-nine Republicans and forty-six Democrats voted in favor.[23] And at the end of that month, TPA was granted an automatic two-year extension, making July 1, 2007, the new deadline for agreements that would receive expedited legislative consideration.[24] Neither issue was seriously contested.

CAFTA was another matter entirely. Organized labor went all out in opposition, joined by NGOs that saw the agreement as exploiting workers and peasants for the benefit of multinational business. Portman reached out to Democrats, but with his late start he couldn't crack the basic partisan pattern. The House Democratic leadership pressed for a maximum negative vote, angry at the Republicans' systematic exclusion of their party from legislative influence across the board and thinking that this was a vote they might actually win. They didn't, but they forced the Bush administration and House Republican leaders to spend major political capital (and, apparently, substantial public funds) to win over undecided compatriots. In the end, their July 2005 victory was a less frantic replication of the fight over TPA in December 2001: the final count was 217 to 215, with only fifteen Democrats in favor but three additional Republicans available just in case.[25]

Portman was pleased with the victory but unhappy about the manner of its achievement. Calling the CAFTA-DR legislative process "a train wreck not of my own making," he reached out immediately to senior Ways and Means Democrats, anxious to restore communications. And by early 2006 it was clear that Republican discipline was eroding with the emergence of differences within the rank and file and with the departure—amid fundraising and lobbying scandals—of the Texas representative who had made it all work, Majority Leader Tom "The Hammer" DeLay. Meanwhile, Bill

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Thomas, the highly effective and highly partisan Ways and Means chairman, announced he would be leaving the House at the end of the year.

So Portman faced not only a formidable domestic challenge but also the opportunity to rebuild bipartisan support for trade policy at a time when interparty rancor was beginning, finally, to self-destruct. But his biggest political challenge was international: completion of the Doha Round. Zoellick had helped keep it alive, but negotiators had missed every deadline. When Portman took over, the new target for a breakthrough was the Hong Kong Ministerial Conference of December 2005. The WTO was energized by the election of a dynamic new leader, Pascal Lamy of France and the EU. In an effort to propel the talks forward, Portman tabled a new U.S. proposal to curb farm subsidies. This was bold enough to be well received internationally without going so far as to undermine domestic support. But the EU negotiator, Peter Mandelson, had less negotiating leeway, and though his response went far enough to prevent a rupture in the talks, it was insufficient to move them onto firm new ground. Portman did, however, make a solid impression at Hong Kong. As reported in the *Financial Times,*

> The US trade representative was widely acclaimed as the star of this, his first WTO ministerial meeting. Many participants were impressed by his effortless command of his brief, political astuteness, polished delivery and boyish charm. . . . The US is often accused of bullying and heavy-handed tactics at WTO meetings, which have made it the main target of attacks by other, particularly developing, countries. In Hong Kong, however, Portman's light touch helped disarm US critics, even in regard to highly emotive issues such as its trade-distorting cotton subsidies. Whatever the fate of the Doha round, his performance seems likely to enhance his political stature, in Washington as well as internationally.[26]

Like Zoellick before him, Portman had the international and domestic leverage gained from TPA. And like Zoellick, he was pursuing bilateral as well as global deals. Of particular importance was the launching in February 2006 of FTA talks with Korea, a major U.S. trading partner. But the Doha Round remained the central challenge for U.S. trade policy and U.S. trade politics. The FTAA was bound to fall further behind schedule, but a Doha success on agriculture remained the most promising route toward the eventual completion of a hemispheric agreement. Brazil, in particular, wanted market access concessions on sensitive products like sugar, citrus, and cotton. The United States was unlikely to make these in the regional context,

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because it would need agricultural market gains beyond the hemisphere, above all from the European Union.

As WTO members moved toward the new make-or-break negotiating event—the July 2006 talks at Geneva—the United States changed its trade leader once again. The U.S. trade baton passed from the former representative (Portman, now elevated to director of the president's Office of Management and Budget) to trade policy veteran Susan C. Schwab. Nominated in April 2006, and readily confirmed by the Senate in June, she took on the daunting task of salvaging what experts increasingly saw as a negotiation destined for failure. To avert this outcome, the WTO director-general, Pascal Lamy, talked privately with each member of the Group of Six leading the negotiations, asking what it would be prepared to offer if others made substantial reciprocal moves. But he found the responses insufficient, and when nothing new was put on the table in Geneva, he declared the talks suspended. In a press conference immediately thereafter, Schwab said that the U.S. delegation had a mandate from President Bush to go further, but "most of our trading partners showed up with exactly the same positions they had two, three weeks ago." Since others had not responded in kind to Portman's earlier offer, she saw no benefit in putting forward another one, declaring that "the United States cannot be in a position of negotiating with ourselves."[27]

History is reassuring on global trade talks; it suggests that they typically falter in midcourse but bring constructive, positive-sum, trade-liberalizing compromises in the end. It also suggests they take longer and longer: five years for the Kennedy Round of the 1960s, six years for the Tokyo Round of the 1970s, and seven years plus for the Uruguay Round of the late 1980s and early 1990s. Eight years for the completion of Doha would put us in 2009, after yet another U.S. presidential election and well beyond the period authorized by current U.S. law.

That law required formal agreement by mid-2007 and, therefore, substantive agreement early in that year. As of late 2006 this was no longer possible—unless the United States acceded to a Doha "lite" outcome, which it had long steadfastly resisted. The alternative was to secure an extension of TPA from the new, Democratic-controlled 110th Congress.[28] Speaking in the wake of his party's election triumph, Ways and Means Committee chair-to-be Charles Rangel declared himself open to bipartisan cooperation on trade. He spent the opening months of 2007 negotiating with USTR Schwab (and new ranking Ways and Means Republican Jim McCrery [R-La.]) new legislative language for bilateral FTAs more friendly to Democrats' concerns. Above all, this included commitments to the core labor standards

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embodied in the International Labor Organization's Declaration on Fundamental Principles and Rights at Work, adopted by international consensus in June 1998. If agreement were reached, this language would be in the bilateral FTAs already negotiated with Peru, Panama, and Colombia.

On Doha, interparty differences were not so sharp. But for an extension of TPA to gain sufficient domestic support to pass in this Congress, U.S. business would have to see a substantial, beneficial Doha deal on the horizon—including new access to both goods and services markets within emerging economic powerhouses like Brazil and India. There is very little sympathy in the United States for special and differential treatment insofar as this applies to such advanced developing countries. As the United States sees it, if these big emerging markets want to get, they will have to give.

But the United States will have to give as well. On the wish lists of U.S. trading partners are not just farm subsidies and cotton, orange juice, and sugar but also the reform of antidumping laws and the movement of persons. And any changes in U.S. farm support programs have to be coordinated between the extension of TPA and the renewal of agriculture legislation likely to come up around the same time. To make U.S. market-opening concessions possible, the USTR will have to build a domestic coalition of potential winners such that it can beat the well-fortified redoubts of protection in legislative battle. To make it worth the winners' while, Schwab will need to work with a broad group of nations committed to major Doha results.

In hopes that this might yet be possible, Schwab consulted actively with potential allies in the aftermath of the July breakup, flying twice to Brazil and once to Argentina. She also accompanied the president to the November 2006 Hanoi meeting of the APEC Forum, where the United States proposed the launch of negotiations for a Free Trade Area of the Asia Pacific (FTAAP). The hope, in part, was that the threat of such a group would make players like the EU, Brazil, and India more flexible in their Doha Round positions. The result was a modest victory for Bush. The final communiqué called on members to "undertake further studies on ways and means to promote regional economic integration, including a Free Trade Area of the Asia Pacific as a long-term prospect, and report to the 2007 APEC Economic Leaders' Meeting in Australia."[29]

But the challenges remain formidable. In spite of Schwab's talents, a weakened Bush administration and the complexities that impede the completion of Doha will be difficult to overcome, even if the goal remains well worth the pursuit.

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Notes

1. The position was vacant because of Bush's designation of its director, Josh Bolten, to be his new White House chief of staff.

2. Throughout this chapter the focus is on the U.S. trade balance in goods, not the overall balance in goods and services now highlighted by the Department of Commerce nor the still broader balance on current account. The reason is that trade policy is still mostly about goods (though services have undeniably grown in importance), so that the products of farms and factories (and their producers) have dominated the trade policy process.

3. In the late 1990s a strong dollar and a surge in investment demand precipitated capital inflows and the Asian financial crisis that dampened exports. By 2003 the new Bush budget deficit was playing a role, as had Reagan's in the 1980s.

4. For comprehensive treatment, see Craig VanGrasstek, *U.S. Policy in Textile and Apparel Trade: From Managed Protection to Managed Liberalization* (Washington: Washington Trade Reports, 2003).

5. Trade here is the average of exports and imports $(X + M)/2$. Properly speaking, trade/GDP and trade/goods production should be seen as ratios, not percentages, since trade statistics represent final value of goods bought and sold, and GDP and goods production represent just value added in the United States. (All statistics are calculated from *Economic Report of the President,* 2004, tables B-1, B-8, and B-13.)

6. Richard E. Cohen, "Going to Extremes: Our Annual Vote Ratings," special supplement, *National Journal,* February 26, 2000, p. 4. One of the two Democratic outliers left the party in 2000; one of the two Republicans was defeated for reelection in 2002.

7. *National Journal,* February 12, 2005, pp. 427 and 440–54.

8. Sarah A. Binder, *Stalemate: Causes and Consequences of Legislative Gridlock* (Brookings, 2003), pp. 23–24.

9. As it has for over thirty years, the National Election Survey, based at the University of Michigan, asked 2004 voters the following question: "When it comes to politics do you usually think of yourself as extremely liberal, liberal, slightly liberal, moderate or middle of the road, slightly conservative, conservative, extremely conservative, or haven't you thought much about this?" A total of 71 percent either chose one of the three middle categories or said they hadn't thought about it (www.umich.edu/~nes/nesguide/toptable/tab3_1.htm).

10. Morris P. Fiorina with Samuel J. Abrams and Jeremy C. Pope, *Culture War? The Myth of a Polarized America* (New York: Pearson Longman, 2005); quotations on pp. 78 and 99.

11. After this proposal failed to win a House majority, Gingrich infuriated Democrats by bringing it up for a vote a year later, even though it had no chance to pass, in order to put a political squeeze on Democrats. In response to this, senior Ways and Means Democrat Robert Matsui (D-Calif.), long a stalwart free trader, moved to the opposition camp.

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12. For the detailed story, see I. M. Destler, *American Trade Politics,* 4th ed. (Washington: Peterson Institute for International Economics, 2005), appendix A.

13. Lori G. Kletzer and Howard Rosen, “Easing the Adjustment Burden on US Workers,” in *The United States and the World Economy,* edited by C. Fred Bergsten (Washington: Peterson Institute for International Economics, 2005), pp. 319–20. Rosen played a key role in developing an expansion of trade adjustment assistance legislation.

14. “Remarks by Ambassador Robert B. Zoellick, Phoenix, April 30, 2002” (Washington: Office of the U.S. Trade Representative, 2002), p. 81.

15. For a comprehensive review of the pros and cons, see Jeffrey J. Schott, ed., *Free Trade Agreements: US Strategies and Priorities* (Washington: Peterson Institute for International Economics, 2004).

16. Membership varied, so the group is sometimes referred to as the G20/21 and sometimes as the G22.

17. For details see Jeffrey J. Schott, “Confronting Current Challenges to US Trade Policy,” in *The United States and the World Economy,* edited by C. Fred Bergsten (Washington: Peterson Institute for International Economics, 2005).

18. Cases submitted separately but reviewed together are here counted as single cases (for example, three linked cases against the EU’s import regime for bananas). If such cases were counted individually, the United States won twenty-two and lost six, a success rate of 79 percent. This excludes twenty-five (twenty-seven) that were negotiated, nine that are pending, and fourteen (sixteen) that are inactive.

19. If cases were counted individually (for example, the eight separate country filings in 2002 against U.S. steel safeguards), the United States won nine and lost thirty-seven, or 80 percent of WTO cases that were litigated to completion. Excluded are fourteen (sixteen) cases that were negotiated, seventeen that are pending, and nine that are inactive.

20. The Bush administration reported, in mid-2004, an overall WTO won-lost record of thirteen to ten (56 percent) during its tenure and eighteen to fifteen (54 percent) during the Clinton years. (See “Real Results: Leveling the Playing Field for American Workers and Farmers,” news release, Office of the U.S. Trade Representative, July 8, 2004.)

21. The Byrd Amendment was finally repealed in January 2006, but the effective date was put off until October 1, 2007.

22. In the fall of 2004, Speaker Dennis Hastert refused to let the conference report on a major intelligence reorganization bill go to the House floor for a vote because, in spite of strong opposition from the Republican caucus, it clearly would have passed (further, President Bush supported it). What should govern, Hastert implied, was not the majority of the House but the majority of House *Republicans.* Eventually, prominent critics were mollified, and the bill was enacted.

23. This was the result of a provision authored by none other than free trader Newt Gingrich who, faced with an anti-WTO primary appointment in 1994, had gotten a provision added to the Uruguay Round implementing legislation providing for such a resolution to be voted on every five years. In 2000 just fifty-six members of the House had backed it: thirty-three Republicans, twenty-one Democrats, and two Independents.

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24. TPA legislation enacted in 2002 provided for such an extension if the president sought it and neither the House nor the Senate voted against it. For a negative vote to occur, moreover, the House Ways and Means Committee or the Senate Finance Committee would have to report a negative resolution to the floor. Neither did so, and the authority was therefore extended by inaction. In 1991, under an identical provision in the 1988 trade law, both committees reported out such resolutions with a negative recommendation, and they were defeated. However, the committees used administration concern over the forthcoming votes as leverage to extract policy commitments from the first Bush administration. In 2005 neither committee was inclined to use this process for oversight purposes.

25. The vote was 214 to 211 when time expired. But according to one who was in the room with the leadership, the Republicans wanted 217 votes in favor and also to allow the maximum number of colleagues to vote their constituencies. So they held six on-the-fence members in abeyance until the final Democrat voted nay, had three of these Republicans vote aye, and then let the three most politically vulnerable off the hook. Such was the power of party discipline that twenty-five of the thirty-nine Republicans who voted to withdraw from the WTO in June voted in favor of CAFTA in July. On the other side of the aisle, the fifteen pro-CAFTA Democrats represented the smallest Democratic support ever for a trade agreement.

26. Guy de Jonquières and Frances Williams, "The Diverse Styles of the Figures on WTO's Stage," *Financial Times,* December 18, 2005.

27. "Evening Press Availability on the Doha Development Agenda with Ambassador Susan C. Schwab and Mike Johanns, Secretary of Agriculture," WTO Headquarters, Geneva, July 24, 2006.

28. Arguably the easiest legislation to enact would be the sort of extension granted President Bill Clinton in 1993—one that applied only to the WTO talks. Harder to enact would be a proposal that applied that authority to all negotiations then in progress; most difficult would be a blanket extension. For a discussion of the politics as of early spring 2006, see Bruce Stokes, "Fast-Track on the Fast Track?" *National Journal,* April 1, 2006, pp. 64–65.

29. Hanoi Declaration, Fourteenth APEC Economic Leaders' Meeting, November 18–19, 2006. In 1993 the first APEC economic leaders' meeting at Seattle raised the prospect of free trade among member nations, and this (plus congressional approval of NAFTA a week before) was credited with securing additional concessions from the EU sufficient to complete the Uruguay Round agreement. Advocates like C. Fred Bergsten, director of the Peterson Institute for International Economics, were clearly hoping for a repeat.

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