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US TRADE STRATEGY AND EUROPEAN INTERESTS

ROBERT B. ZOELICK*

Since the start of the Bush administration, the U.S. has sought to advance a strategy called competitive liberalisation. And, in fact, the U.S. is trying to promote free trade on multiple fronts: globally through the WTO, regionally primarily through the Free Trade Area of the Americas which involves 34 countries of the western hemisphere, and then bilaterally through agreements with individual countries in other regions.

By moving on multiple fronts the U.S. hopes to accomplish a number of objectives. First, since the U.S. produces about 25 percent of the world's GDP, depending on exchange rates, the Administration believes that in this way it can add to US leverage for openness. In effect, the U.S. wants to be aggressive on opening markets in a number of areas and if one party or another decides not to move or to slow down, we say we are ready to go when you are, but if you are not ready to go, we shall go with others who are ready. This is important, in my view, in part also for the domestic audience, in that we want to keep free trade on the front burner.

Free trade may be described by the bicycle-theory: if you don't keep it moving forward, just like a bicycle, the gravitational pull will topple it. So we want to keep moving forward. It is obviously a way to help businesses, exporters, importers, consumers and the workers that have their jobs because of trade. We can also use these agreements to try to break new ground and set higher standards. For example, in two free trade agreements we completed with Singapore and Chile, we have been able to advance the state of the art in topics like digital intellectual property rights or some of the services topics. We are even trying to have a co-operative arrangement on environ-

mental labour objectives. And we can also use these mechanisms to create stronger partnerships with the WTO because the countries that we work with become good coalition partners in advancing free trade in other contexts. So far we feel we have been able to make progress both generally and specifically. Generally we have been able to regain momentum for trade in the U.S. and also globally and in doing so, we have tried to take the sometimes technical subject of trade and connect it to other objectives – to growth, to development, and also importantly, after September 11, to a larger security agenda. And let me be very clear on this: I certainly would not suggest that terrorism is caused by poverty. If you look at the demographic backgrounds of the terrorists, you would have a hard time making that case, and indeed it would be an insult to hundreds of millions of poor people around the world who don't take out their difficulties on blowing up buildings. But there is no doubt that – as you look around the world to a place like Indonesia – one recognises that societies that fragment, that become less cohesive, where people lose their sense of hope and opportunity, become fertile grounds for people who have agendas of destroying as opposed to creating. In this context trade and openness and democracy can become part of the larger campaign against terrorism.

US bilateral efforts

President Bush put in a lot of political capital trying to regain our overall trade negotiating authority that we call "trade promotion authority", and that some of you might have known as "fast track". There were three failed efforts in the 1990s to extend this authority. It took a major effort to move forward, and many people may be unaware of the fact that the Trade Act of 2002 which did that also included about \$20 billion of preferential trade for the developing world analogous to what Europe had done with the „Everything but arms“ initiative.

Working closely with EU Commissioner Lamy we were able to launch the WTO negotiations in Doha

The U.S. is moving on multiple fronts

* US Trade Representative. Presentation given at the Munich Economic Summit, May 2003.

reversing the failure of Seattle. Here I want to give particular credit to Commissioner Lamy, because when I took office in 2001, most of my trade minister colleagues suggested we should not even try because the cost of failure would be too high for the WTO. Pascal Lamy was one of the people most committed to the idea that we should make an effort and together we worked very hard to accomplish this.

We also brought China and Taiwan into the WTO, something that I think will have great historical importance. Some of the developments in China, although they move with fits and starts, have been very important to the international economy. We now move the Free Trade Area of the Americas negotiations forward. We completed the Singapore and Chile free trade agreements and we have launched a series of new free trade agreements. One is with the Central America Free Trade Agreement which includes the five countries of Central America, another with the five countries of the Southern African Customs Union, and one with Morocco, which would be our second agreement with an Arab-Muslim country. We launched one with Australia and also an initiative called the Enterprise for ASEAN Initiative, which is to build on the Singapore Free Trade Agreement, and we are considering the possibility of additional free trade agreements with other ASEAN countries.

US global initiatives

Today I want to focus primarily on our global initiatives in the WTO. As I mentioned, we launched the Doha Development Agenda in Qatar in November 2001. EU-US leadership was fundamental to moving this forward. We now have 146 participants – Macedonia joined us recently – and the primary focus now is on what we have to accomplish to have a successful meeting of ministers in Cancun in September of this year, because we have a target date of completion of January 2005. This of course is ambitious, for if you remember, the Uruguay-Round was begun in 1986 and was not completed until 1994. We have a much tighter time-frame, but I do believe it is possible to accomplish this.

We believe the Doha Agenda is a once-in-a-generation opportunity to really move the global trading system forward. It takes a number of years to nego-

tiate these agreements and then of course the implementation phase covers another ten to fifteen years. After we launched this agenda, the United States set forth some very bold proposals in the industrial and consumer good sectors and the agricultural sector, and we are also very committed to services.

There are three pillars of what the trade officials call the market access agenda. First, in agriculture we have three key elements. One is to eliminate export subsidies, which the IMF and others have identified as the most egregious form of interference in world agricultural trade and which is also clearly something that has a very deleterious effect on developing countries. The proposal is to cut average world farm tariffs from 60 to 15 percent according to a formula that would do this. In the case of the United States, it would cut our average agricultural tariff from 12 percent to 5 percent and the formula would have a cap that would limit the highest tariff in agriculture to 25 percent.

When you consider that, for example, in Japan the rice tariff ranges between 500 and 1000 percent, or that our sugar tariffs are about at 100 percent, this would have a very significant effect in the area called trade distorting domestic supports. These are not export subsidies but they are subsidies internal to a country that distort production and thereby affect markets. We had a proposal that would cut \$100 billion out of that, cut our support in half and also bring down the European subsidies much closer to ours.

Secondly, in the consumer and industrial goods area we were even bolder because this is the area that was first protected under the GATT in 1947 and we argued that after some 50 years it was time to finally eliminate the tariffs in the industrial sector. On the way to do that we recommended that all tariffs at 5 percent or below would be eliminated within the first five years which would be of benefit to both developed and developing countries. When we examined the benefit of this measure on trade between the European Union, the United States and Japan, we discovered that it would cover about three quarters of the trade in industrial and consumer goods. For many of the businesses in the United States, and I believe this is true in Europe as well, many of these tariffs are almost at a nuisance level. They require paper work, they require time and effort and so we wanted to clear them out

There are three pillars of the market access agenda

since many developing countries' tariffs are not quite so low. We also thought that this would show a commitment by the developed countries to opening our markets to the developing world.

And then we also would cut, by the end of the first five years, tariffs down to 8 percent on their way to zero. We also proposed a series of what trade officials call sectoral zero-for-zero initiatives. This means that if a critical mass of countries were to agree to eliminate their tariff in a given sector, just as countries did in the information and technology area in the 1990s, we would eliminate our tariffs in that sector, hence it's zero tariff for zero tariff, and we would like to try to do this for products of both developed and developing countries. I will come back to explain where I think this could be particularly important for German and European businesses.

The third proposal addresses the services area which was not covered by trade negotiations until the Uruguay Round but has some extremely important elements. For economic development it is very hard for countries to really get off the ground if they don't have the infrastructure, telecommunications, financial services, construction and engineering services. Another fact that many people are unaware of is that services now account for the major part of both developing and developed countries' GDP. In the United States services are about 66 percent of our GDP and about 80 percent of our jobs. The numbers I saw most recently for Germany were a little over 60 percent and the World Bank's numbers for developing countries were about 54 percent. This is obviously an area where there is a huge potential for expanding markets.

World Bank studies have shown that global free trade in industrial goods and agriculture could boost developing countries' annual incomes by \$540 billion, lifting some 300 million people out of poverty, i.e. more than the population of the United States. Nearly two thirds of these benefits would go to the developing world not only because their ability to export to the developed world but also because of the existing barriers among each other. About 70 percent of the tariffs that the developing countries pay are to other developing countries. So this is a tremendous possibility of expanding developing countries' trade. In the services area where less work has been done, the

World Bank has shown that you could actually get a \$900 billion annual income boost from removing the barriers.

European interests

Now let me move more particularly to the European benefits. Some of the statistics I am pointing to here come from work done at the University of Michigan. The statistics refer to a combination of the EU and the EFTA countries. Free trade in goods would boost the economy of Europe by some \$200 billion a year and in services by some \$300 billion a year.

Just taking up the second point, the German Economics Ministry pointed to some analysis from 1999 that showed that by cutting industrial tariffs by just 50 percent as opposed to total elimination you could create some 55,000 jobs in Germany and boost Germany's GDP by €11.5 billion a year.

I mentioned earlier the possibility of zero-for-zero negotiations. Some of the areas that we are trying to focus on right now with the European Commission are aircraft, pharmaceuticals, computers, medical equipment, electrical equipment, office and industrial machinery and also autos and auto parts. Our numbers show that this would make about a third, maybe a little bit more, of Germany's exports tariff-free. The effect of these numbers may be seen in reference to autos. India's auto tariffs are about 105 percent, the EU's about 10 percent and ours about 2.5 percent.

To be successful in this effort – and this is one of the items we are working on – we will clearly have to give different phasing and special differential treatment to the developing world. Nevertheless, as I mentioned, it also will benefit developing world trade, because we do not want to repeat a type of neo-colonialism, where trade just flows from the developing to the developed countries. There is tremendous potential for trade among the developing countries themselves, and we were pleased that when we came out with our goods proposal UNICE (Union of Industrial and Employers' Confederations of Europe) was very supportive as was the BDI (German Federation of Industry).

So where are we today? Earlier this week I attended a meeting of the OECD countries in Paris. A

Cutting industrial tariffs would create thousands of jobs in Germany alone

number of developing countries were invited there as well. Preparing for this meeting over the past few weeks I have been working closely with EU Commissioner Pascal Lamy to try to see if we could get some renewed momentum going at Cancun. We both felt that, for all the good work being done by our ambassadors to the WTO in Geneva, it is vital to draw ministers into this process. But if you try to get ministers from some 146 countries you must get very focused on the agenda. So we came up with a list of about six items – it could vary, it is not trying to leave anything in or out. And these were six categories, including goods, agriculture, services, and development issues, the so-called Singapore issues, like trade facilitation, transparency in government procurement, topics the European Union has also been promoting. I think these have good support, whereas some dealing with investment and competition policy are going to be little tougher.

But we also were quite specific in coming forward with four specific ideas to draw closer in the goods area. And let me tell you the logic here. We knew that the agricultural discussions were stuck. The goods discussions are very important for the world economy as part of the market access agenda, and the US and the European positions were not all that different, although ours were a little bit more aggressive. So we identified four key points of agreement to a) show that the United States and the European Commission are working together, b) add a sense of hope and opportunity for the other countries, a sense of movement, and c) try to shape the agenda going on in Geneva, because during the month of May the chairman of this negotiating group will be developing a framework.

First, we came together on the idea of having one harmonising formula to reduce tariffs along the lines that we suggested. We did not come to an agreement about the exact cap or method. Second, besides the idea that we should have a formula, there is the idea that we should eliminate tariffs below a certain level – we have not yet agreed on a number, we are at 5 percent, the EU is more around 2 percent, but they may be able to come up a little bit. Third is the notion of sectoral zero-for-zero negotiations that I mentioned, and then, fourth, a component for special and differential treatment.

This can set the stage but what was also very clear coming out of the OECD meeting in Paris, is that

there will have to be movement on agriculture. And this is not just a demand of the United States. Brazil was very adamant on this, Egypt was very adamant on it, Indonesia from Southeast Asia was very strong about this, Morocco, speaking on behalf of the African group, and of course Australia, New Zealand and Canada. It is fortunate that there is a process going on now to consider reforms of the EU's Common Agricultural Policy (CAP). To their credit, Commissioners Fischler and Lamy have put forward a proposal on behalf of the Commission. That does not solve everybody's problems, but it would have two benefits: it is obviously driven by European concepts for internal reform and it also has the possibility of giving the Commission additional flexibility in these negotiations. Commissioner Fischler is pushing for a decision on this by June.

One of the reasons why I was in Berlin and in Paris, where I had discussions with the finance ministers and also with members of the business community, was to emphasise the importance of this development. I have been trying to set the stage by showing that for the European business community and others there are benefits from the good's area and by showing other countries in the world that the United States and the EU are moving together. But the ultimate reality is that it will come down very significantly to the reform of the Common Agricultural Policy.

Let me just mention what I could consider to be some of the German interests in the reform of the CAP. First, this has been driven first and foremost by the recognition of many European countries of the need to reform the Common Agricultural Policy for European reasons. Obviously the European Union is in the process of enlargement. Therefore the question is: how easy will it be to restructure the CAP when you have 25 as opposed to 15 countries, especially when many of the ten new members have agricultural sectors with their own sensitivities.

But in addition, particularly from a German perspective, there is a desire to try to focus agricultural policy and consider world concerns, environmental concerns.

The nature of the CAP reform that Franz Fischler has put together is designed to do this by so-called de-coupled payments. Without getting too techni-

Four ideas that would draw the U.S. and Europe closer on goods

cal, the agricultural area is a little different than the goods area. The rules permit subsidies but they have to be de-linked from production, hence the word de-coupling, and if they are they are put in a category called the green box, meaning they are permitted subsidies.

Thus, some of the proposals that Fischler has put forward, and that the United States started to put forward in 1996, say that if you want to pursue world or environmental objectives, you can pay your farmers. It is up to you or for us to decide whether that is a good use of money or not, but if you want to do it, you can do it, just don't distort production by encouraging farmers to produce more than they otherwise would. Because if you increase prices and as a result get a surplus of production, then you want export subsidies in order that people buy it.

Thus there are reasons why this is being driven by the EU's internal interest. But there is a second benefit which is that CAP reform would give a very important shot in the arm to these trade negotiations. And again, it does not do as much in the area of market access, but frankly I think it would be a very important step.

Additional benefits are that this is one of the best ways that Europe and the rest of us can help developing countries. And I know there is a sincere interest in that, particularly in Germany, and also in other quarters in Europe, because many of these developing countries really depend on their agricultural exports to increase their income. It could be a boost to the fragile world economy.

It would obviously be a great benefit if the Cancun meeting were successful and we could build confidence, over time reduce those barriers and reap the benefits that I mentioned in the goods and services trade. In my view this comes at a particularly important time for Germany, given the efforts on structural reform. It is easier to deal with changes on the domestic side when you have a growing international economy and more jobs through exports. Indeed, whether it be Germany or Latin America or others, it is easier to undertake structural reforms if you have overall global growth. It is a good opportunity also, because the proposals are not being put forward by Brazil or Australia or the United States but by the European Commission. Thus, given German sensitivities about oper-

ating in a European framework, the opportunity presents itself and is also an opportunity to strengthen a key multilateral institution, the WTO.

And finally, at a time when people are writing stories about how the United States and Europe can find areas of co-operation, here is one that is definitely in everybody's economic interest and also supports a multilateral institution.

Many people have said the United States is not committed to multilateralism, but it is hard to look at these proposals and say the U.S. is not. Now the question is whether Europe is committed to multilateralism.

An appeal to European businessmen

It is vital to get European business engaged with the Doha agenda. I already pointed out some of the benefits, but here are some examples. Kodak, a US company, pays \$250 million in tariffs around the world. To the question of how to reduce that number our answer was that Kodak would have to learn about agriculture, because to be able to go at the overall industrial tariffs we are going to have to deal with the agricultural issue.

It is increasingly important that companies take the responsibility to try to build support in their communities, with their employees, with their shareholders. There is no shortage of people out there that either want to sound anti-globalisation themes or talk about protectionism. This is certainly true in the United States. Industries that are struggling to keep up, that are afraid of competition, are extremely well organised in Congress. However, one of my challenges is trying to get some of the industries whose business models are totally based on the assumption of openness to act on that. For example, in trying to get the trade act through we could not get the votes of the two Congresswomen from Silicon Valley. Now someone has to explain to me how the hi-tech community can survive without global openness. Its businesses have to make it clear to their members of Congress how important this issue is.

About four weeks ago I was in Los Angeles trying to help organise an entertainment coalition for free trade because increasingly, particularly in these bilateral agreements, we are dealing with

CAP reform is essential for successful trade negotiations and the EU's internal interest

some fascinating issues of the digital world and protection. The Motion Picture Association helped put together this coalition because half the revenues of the entertainment industry depend on overseas sales. Well, I think there needs to be a similar effort in Europe.

Let me give you another example. One of the farm co-operatives in the United States put on their biweekly payslips the amount of sales they have overseas so the employees could see the importance of overseas trade for their own livelihood. This is not just a government task. There are many opportunities to build coalitions with US or other businesses in areas of common interest. We talked about the services industry and the goods industry. I mentioned another topic under the Singapore agenda, trade facilitation.

In so many quarters of the world the added cost of simply doing business, whether because of inefficient custom systems or other arrangements, can overwhelm what one does in the tariff area. To be more specific, we have been working with Egypt (with some of our aid money) to help them build their customs system. Right now it does not matter what their tariffs are because the customs official at the border can decide to double the price or increase it to some arbitrary degree. If you double the price it certainly wipes out any benefit of a tariff cut because you have just increased the base to which the tariff applies.

The final point that I want to leave you with is that this truly is a moment where it is going to be absolutely vital to have EU member states recognise the broad benefits of CAP reform and the criticality not only for Europe but for the global trade negotiations. I know that this is not just a German responsibility. There is strong support from Scandinavian countries, from Britain. But it will come down very heavily to what Germany does. I left the OECD meeting with a slight additional sense of optimism. We don't have to solve everything by the Cancun meeting – we just have to move the agenda forward to the next stage.