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August 19, 2006

U.S. Turns Tough on Trade

Threat of Losing Sweetheart Deals May Bring Nations Back to Talks

By GREG HITT
August 19, 2006; Page A4

WASHINGTON -- Here's the new U.S. strategy for reviving global trade talks: threaten to cut off sweetheart trade deals with big developing nations like India and Brazil to make them more willing to compromise.

Cheered on by such influential lawmakers as Iowa Republican Charles Grassley, chairman of the Senate Finance Committee, the Bush administration is conducting a highly publicized "review" of whether to pare special trade benefits that the U.S. offers to Brazil, India and 11 other trading partners. Those nations are part of a 32-year-old program called the Generalized System of Preferences, or GSP, designed to help the world's poorest nations by giving them duty-free access to the U.S. market on farm and manufactured products.

The U.S. says the review is technical in nature and involves a recalculation of whether Brazil and India, whose economies are growing strongly, still should qualify for the trade preferences. The point is to ensure the program is steering benefits to "countries that need a helping hand," said a spokesman for the U.S. Trade Representative, who added that India and Brazil shouldn't "take it personally."

But the review's timing, just a few weeks after the collapse of the global trade talks at which Brazil and India -- leaders of a bloc of developing nations -- didn't come through with market-opening concessions sought by the U.S. and Europe, suggests it is at least in part politically motivated. Mr. Grassley, for one, says paring the bilateral trade benefits is critical to convincing Brazil and India that they need a global trade deal, which negotiators call the Doha Round. That is because only such a pact would assure them favorable access to the vast U.S. market.

"I want to send a signal," said Mr. Grassley, who often acts as a "bad cop" in trade negotiations to the administration's "good cop." "I want to make sure that they cannot count on having the benefits of GSP if they aren't going to cooperate in the efforts to get Doha through."

The tough-guy tactics could backfire, though, as have other efforts to press developing nations to yield to the U.S. For instance, Washington has negotiated a series of regional free-trade agreements, in part to pressure big developing nations to cut a global trade deal for fear of being ignored by the U.S. But the targeted nations haven't budged much, and trade experts complain that the Bush administration has spent too much time negotiating pacts with small nations such as Morocco, Bahrain or Peru that add next to nothing to the U.S. economy.

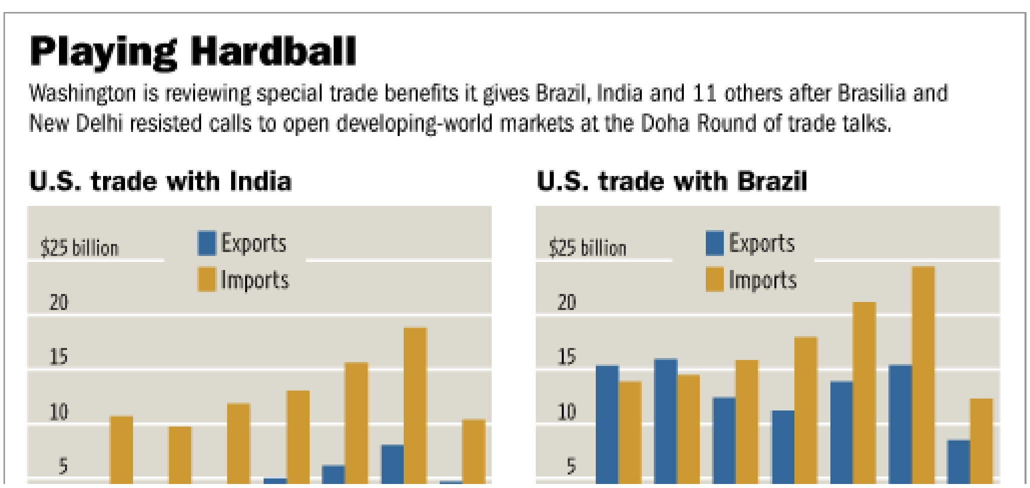
The review, announced in the second week of August as most of official Washington was heading out for vacation, has yet to spark any serious push-back on the part of Brazil, India or the other 11 countries facing added scrutiny. "They are proceeding cautiously on the issue," said Gawain Kripke, senior policy adviser at Oxfam America, an antipoverty advocacy group that has been working with developing countries to win renewal of GSP.

But Mr. Kripke said the threat to take back the benefits isn't going to change the political dynamic in Doha. "Inciting trade wars isn't likely to move negotiations forward," he said. "These aren't confidence-building sentiments." Spokesmen at the Brazilian and Indian embassies couldn't be reached for comment.

Moreover, the U.S. stance could undermine its credibility as a free-trade advocate. "The U.S. should be consistent and stand for reducing market barriers, end of story," said Susan Sechler, a former U.S. agriculture official who works at the German Marshall Fund, a think tank that focuses on U.S.-European relations. Removing GSP preferences isn't the best way to go about opening other markets, she added. "The U.S. needs to be on a path toward being perceived as an evenhanded player that stands for something. They are not doing this."

The administration may feel it has little to lose. President Bush's authority to negotiate trade deals under a special arrangement, known colloquially as fast-track, expires July 1, 2007. Under fast-track, Congress can vote either yes or no on a trade deal but not to amend it. Trade partners are reluctant to negotiate with a U.S. administration that lacks such authority because they know lawmakers could rewrite any deal. Essentially, the expiration of fast-track becomes the drop-dead date for global trade talks.

U.S. Trade Representative Susan Schwab is making yet another last-ditch effort to revive the talks. On Monday, she embarks on a weeklong trip to Asia, including a meeting of the Association of Southeast Asian Nations Economic Ministers in Kuala Lampur, Malaysia. She plans to talk with trade ministers from Australia, New Zealand, India, Korea and Japan.



Brazil and India figure so prominently because they are leaders of the developing nations involved in the World Trade

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After the prior round of trade talks fell apart in 2003 because divisions between rich and poor countries deadlocked talks in Cancún, Mexico, the two countries have been trying to act as an economic and political counterweight to the U.S. and Europe, which have long dominated global trade.

The GSP program was launched in 1974 to provide duty-free treatment to goods exported to the U.S. from developing countries. Textiles and apparel don't qualify, but most farm products and manufactured goods do, at an annual cost of $352 million. Currently, 133 nations have some GSP benefits; in 2005, they exported $26.7 billion in goods under the GSP program to the U.S., an 18% increase from 2004.

In most cases, GSP exports represent a small share of total trade between beneficiaries and the U.S. Only 15% of Brazil's exports to the U.S., for example, come in under GSP. But poor nations are wary of losing any edge they have in the world marketplace.

From time to time, as GSP participants have grown wealthier, they have been "graduated" out of the program. Among the alumni are Malaysia, Hong Kong, Singapore, South Korea and Taiwan.

Besides India and Brazil, the latest review covers Argentina, Croatia, Indonesia, Kazakhstan, the Philippines, Romania, Russia, South Africa, Thailand, Turkey and Venezuela. Among developing nations, these are largely considered "middle class."

The administration is soliciting public comment until Sept. 5 and hopes to conclude the review in November. At that point, Mr. Bush will face a decision whether to remove any of these countries from the program; his ruling isn't subject to congressional review. Whatever he decides will inevitably shape a broader debate over GSP among lawmakers, who face a decision this fall about whether to renew the program before it expires on Dec. 31.

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