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E-Note: Former USTR Susan Schwab Addresses EU Trade Counselors, Urging Fresh Approaches Beyond the DDA

Summary:

Former US Trade Representative Susan Schwab gave a candid talk during the this week's Trade Counselors meeting of the Hungarian Presidency where she discussed the DDA, US trade policy, pending FTAs in Congress, Russia WTO accession, The Trans-Pacific Partnership, the importance of fostering closer ties between the US and Europe vis-à-vis third countries, and suggested a possible Transatlantic Services and Investment Free Trade Agreement. The remarks were a good opportunity to discuss the state of play on international trade from a US perspective by a quintessential Washington insider. Schwab recently published a much-talked-about article in Foreign Affairs titled, "After Doha: Why the Negotiations Are Doomed and What We Should Do About It," and her remarks—while largely negative on Doha—offered potential avenues for reigniting US interest in trade policy and moving forward in Geneva with trade liberalization among willing countries. Two of her key messages were: the longer Doha talks drag on, the more damage it could cause the multilateral system ("the sooner we move on, the better"); and Dance with the Willing (ie. look to smaller emerging markets and possible sectoral agreements to entice greater trade liberalization).

Details:

It was quite fitting for former USTR Susan Schwab to address Member State Trade Counselors during the last meeting of the Hungarian Presidency on the heels of congressional leaders announcing successful conclusion of Trade Adjustment Assistance negotiations which paves the way for the 3 pending FTA agreements to be approved. Schwab, having served under former President Bush, was chief architect of the pending US FTAs with Korea, Colombia and Panama. The overcome impasse in US trade policy served as the backdrop for Schwab's remarks as she began by looking at the domestic constraints the Obama Administration is facing on trade policy. Jokingly admitting she was free from the constraints of public sector, Schwab offered a frank discussion of where US policy has not met expectations, emphasized the need to "move on" beyond the DDA negotiations, in dealing with Russia and China, and where the EU can help reengage interest in multilateral trade liberalization.

Her advice appeared to apply to both EU and US trade engagement and often spoke of the need for the EU and US to work closely in order to shape the global trade system and address issues related to third countries like China and Russia.

US Politics of Trade

Looking inward, Schwab explained that politics seems to be imposing itself on sensible trade policy in the US. Schwab noted the Obama Administration's difficulty reconciling its political promises to his union-backers with greater global engagement on trade. She criticized the delay in getting the pending FTAs approved and claimed that the votes had always been there for congressional approval. She accused the Obama Administration of being too unambitious on trade policy for merely continuing the trajectory of Bush trade policy. She emphasized that Obama will need Trade Promotion Authority to deliver the TPP. Schwab predicted that since both parties are at the mercy of their constituencies, 2013 might be the time when the Administration (Obama or not) may be freed from political constraints to pursue a more proactive trade policy.

Post-Doha

Schwab warned the WTO risked irrelevance the longer DDA talks continued to drag on. She noted the prevalence of "substandard" bilateral FTAs that were locking the US and EU out of different regions, especially in Asia. Schwab added that the rationale of the TPP for the US was to establish a foothold in Asia and suggested it could ultimately be expanded to non-Asian countries in order to lock-in liberalization commitments at the multilateral level. Schwab warned that the energy currently being spent on Doha was playing into the hands of countries that want to continue the status quo and maintain their Developing Country status for strategic commercial interest.

She encouraged the EU to seek out other emerging market partners and sectoral approaches that may entice them into further trade liberalization. She noted countries like Indonesia, South Africa and Vietnam and sectors like healthcare (comprising of pharmaceuticals, healthcare services, Mode 4, etc.) might serve as entry points towards broader multilateral discussions. She noted the EU was ahead on trade preferences for least developed countries.

China

Schwab said that it had in fact been trade liberalization that was responsible for China's dynamic growth and not the more recently-adopted industrial policy, as many are touting. Schwab noted that intellectual property protection is at the top of the list of issues that need to be discussed with China. She declared that intellectual property was being "extorted" from EU and US companies in China.

She speculated that long-term sustainable growth could not be achieved on an industrial policy model as it will not spark the innovation and entrepreneurship China ultimately needs to thrive. Citing demographics, Schwab was skeptical that China's aging population could increase its consumption, and speculated that the country would proceed with its export-driven model.

EU-US

Schwab's memory of the TEC was not positive, citing the "chlorinated chicken" dispute that characterized the summit in 2009. She admitted that the TEC's stock has risen recently and suggested that its emphasis on setting common standards was the right one. She also suggested close EU-US collaboration on Russia's accession to the WTO, noting that Russia's recent policies on SPS, poultry and beef, export controls were all moving

Russia in the opposite direction. She predicted that a Russia vote in Congress would be difficult as factions within both parties would oppose giving MFN status. On greater EU-US collaboration for more trade liberalization, she declared, "let's get to the point where we can leverage better behavior from [emerging markets and liberalization holdouts] at the WTO."

She noted that a potential EU-US services and investment free trade agreement could spark the interest of US policymakers. She was pessimistic on the recent US Chamber of Commerce proposal for a goods-only agreement and expressed skepticism on whether it would engage Congress. Schwab's openness to begin discussing sectoral issues, engaging with smaller emerging markets, plurilateral agreements, and stronger EU-US collaboration seemed to indicate the need for fresh approaches in trade policy beyond Doha, especially after the November 2012 US elections.

