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Highlights

With the WTO hamstrung and the Doha Round dead in all but name, the future directions of international trade and investment liberalisation will be largely determined by the policy strategies and initiatives of the world’s economic superpowers. Looking at the trade and investment policy strategies of the EU, the U.S., and China, the authors of this policy brief assess how each of these economic giants is attempting to meet the challenges of a post-Doha world and thereby set the scene for a dynamic process of post-Doha international economic integration.

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From Denial to Acceptance
The Beginning of the Post-Doha Era

Last year, a policy brief in this series, The Doha Round: An Obituary, argued that trade diplomats in Geneva and national capitals should i) recognize the fact that the decade-long Doha Round negotiations at the WTO have failed, ii) harvest the least contentious elements of the negotiations, iii) drop the ‘Single Undertaking’ modus operandi, which has become a straitjacket in recent years, and iv) explore other negotiating approaches such as plurilateral agreements.

In the intervening period the landscape has in fact begun to shift in this direction. In comparison with the recent past, when an ubiquitous official state of denial persisted, negotiators have, in the past six months, made giant steps towards public acceptance that the conclusion of a multilateral trade deal on the basis of the Doha framework will not happen anytime soon. However, WTO negotiators had to endure one final desperate attempt to save the Round on the basis of an “early harvest”: advancing the less controversial items of the Doha agenda ahead of its core in an effort to build momentum. Such an effort, while worthwhile, is inherently difficult because in multilateral trade negotiations “everything is linked” and each issue is associated with ‘defensive’ or ‘offensive’ interests on the part of WTO members and treated as such in an effort to achieve a grand bargain among 155 negotiation parties. Advancing individual areas ahead of an overall agreement is not a neutral exercise but favours the negotiating positions of some WTO Members more than others. It has therefore remained hard to achieve.

Sure enough, in the run-up to the 8th WTO Ministerial Conference in Geneva in December 2011, negotiators had considerable difficulties even agreeing on appropriate candidates for early agreements. Ever changing country coalitions raised objections to each proposal, as it was floated among the membership. As the first among his colleagues, the U.S. Ambassador to the WTO Michael Punke recognized this problem in July 2011, warning that “continuing our efforts for an early harvest without prospect of success comes at a significant cost” and opposed further discussions aiming at such a deal. By December no viable path had been found, leaving ministers at the Geneva summit with only an escape into the language of diplomacy in their declaration “that Members need to more fully explore different negotiating approaches.”

Since then, negotiations within the WTO framework have not moved one inch further. On the contrary, in February 2012, a coalition of 15 countries seeking a commercially meaningful accord on services trade voiced support for a U.S. initiative for a plurilateral agreement in this area. This would exclude a majority of WTO Members in general and several large emerging economies such as Argentina, Brazil, China, and India, in particular, who are currently not willing or able to keep pace with the ambitions of this country group at this moment in time. The accord would, however, remain open for their accession at a later point in time. Among the supporters of the initiative are developed WTO members such as the EU, Canada, Australia, and New Zealand, but also developing countries like Singapore, Colombia, South Korea, Hong Kong, Mexico, and Chile. Brazil, China, and India, as well as the WTO Director-General Pascal Lamy himself, on the other hand,
were quick to reject the proposal, citing its potential to undermine the multilateral trading system.

Be that as it may, the very fact of an emerging formation of a “coalition of the willing” in favour of such an initiative encompassing an overwhelming majority of global trade in services, underlines the factual reality that international economic integration in the near future will largely take place outside of the realm of WTO rule-making. Against this background, an understanding of the current trade and investment policy strategies of the world’s major trading powers is an important means for a better appreciation of the directions that global commerce and economic integration will take in a post-Doha world. This policy brief, therefore, lays out perspectives on the policy orientations of the three contemporary economic giants—the European Union, the United States, and China.

**EU Trade Policy: ‘Global Europe’ at a Crossroads?**

For the last six years, EU trade policy has consistently followed the directions prescribed by the European Commission’s ‘Global Europe’ strategy, first put forward by the EU Trade Commissioner at that time, Peter Mandelson, in October 2006. The communiqué outlined in broad terms an unprecedented and highly ambitious bilateral trade negotiation agenda that aims at leveling the playing field for European exporters and investors through the negotiation of comprehensive trade and investment agreements with major traditional and emerging trading partners. Since 2006, the Commission has aggressively and with considerable success promoted the execution of this novel strategic orientation. Most recently, however, the EU’s political leadership has begun to add nuances to this trade policy, which reflect an increasing emphasis on the protection of defensive interests in times of recession and economic instability, as well as the desire to (re-)gain leverage over difficult but important negotiating partners.

At the time of its release, ‘Global Europe’ responded to a growing awareness among policy-makers in Brussels and EU Member States’ capitals that European commercial interests would not be satisfied by the outcome of the protracted WTO Doha Round negotiations at the WTO. What negotiators and policy-makers demanded, but could not receive from third country negotiators within the multilateral framework, was substantial access for EU goods and services to the new growth markets in South, Southeast, and East Asia as well as Latin America. Moreover, in context of increasingly fragmented supply chains across borders, the importance of lowering trade costs and risks through common rules on competition, standards, intellectual property rights and other ‘behind the border’ issues was rising up the list of priorities of EU businesses and governments. But WTO Ministerial Conferences in both Cancun (2003) and Hong Kong (2005) considerably frustrated EU hopes that the Doha Round would ever deliver on any of the EU’s key objectives. At both summits, major rifts between the positions of developed and larger developing countries surfaced and left EU negotiation targets out of reach.

The subsequent release of the ‘Global Europe’ communication one year after Hong Kong marked a major strategic shift. It put an end to the EU’s moratorium on the negotiation of commercially meaningful bilateral trade agreements, which the EU had
put in place in 1999 to underpin its commitment to the Doha agenda. The EU de facto started to turn its back on the Doha Round, although officials in Brussels and policy-makers in Member States’ capitals continued (and continue!) to pay lip service to WTO negotiations. Less than two years later, following the eventual collapse of Doha talks in Geneva in July 2008, the Commission’s Directorate General for External Trade already went as far as to consider options for FTA negotiations with major OECD countries—a move that had previously been considered taboo, given the clouds that bilateral engagements among the richest economies would cast over the Doha agenda.

Ever since 2006, the European Commission, backed by a trade-oriented coalition of EU Member States in the European Council, has spared no effort to meet the ‘Global Europe’ objective of ‘deep economic integration’ with the commercially most attractive regions of the world. In 2007, the Union’s chief negotiator launched negotiations with ASEAN, India, and South Korea. 2009 saw the initiation of the EU’s first free trade agreement (FTA) negotiation with a developed OECD country, namely Canada, and the conclusion of the EU-South Korea FTA. Moreover, EU Member States represented in the Council gave a green light to the replacement of the troublesome EU-ASEAN talks by negotiations with individual ASEAN members. Consequently, in 2010, the European Commission initiated negotiations with Malaysia and Singapore. In the same year, it also revived region-to-region negotiations with the members of MERCOSUR. Furthermore, in 2012, the European Union launched official talks with Vietnam, with a high likelihood that informal negotiations with Indonesia and Japan will soon be followed by an official negotiation mandate. Finally, strong business advocacy efforts on both sides of the Atlantic aiming at the initiation of negotiations on a EU-U.S. FTA persist and have gained increasing attention from policy-makers against the background of a failed Doha Round.
Considering the progress that has been made to date, the outlook for the successful conclusion of the regional agreements that are currently under negotiation is remarkably bright. Japan remains a notable exception, as doubts remain that Tokyo will be able to deliver on the removal of onerous non-tariff barriers. But in the current climate, even an FTA among the western economic giants appears more and more conceivable. A step in this very direction has been made by European policy-makers when they embraced the U.S. proposal for a plurilateral agreement on services among a willing coalition of (currently 16) WTO Members—providing yet another piece of evidence that the Doha Round is unlikely ever to rise from its deathbed.

In the meanwhile, the EU’s highly proactive bilateral strategy has been complemented by several more defensive elements, some of which are designed to (re-)gain leverage over large developing countries’ negotiators. Others follow a more straightforwardly protectionist rationale.

First, the European Commission’s 2011 proposal for a revised scheme of non-reciprocal trade preferences for developing countries showcases the Commission’s intent to exclude several emerging economies from preferential tariff treatment. The proposed revision of the EU’s Generalized System of Preferences (GSP), which would come into effect in 2014, could strip upper-middle income countries\(^2\) such as Russia, Brazil, Argentina, or Saudi Arabia, of their traditional preferential status. In addition to competitive impacts favouring producers in the EU and low-income developing countries, the new scheme would also endow EU negotiators with much-needed bargaining chips and leverage in bilateral and multilateral negotiations. This is the case because the already low EU tariffs on industrial goods give little incentives to emerging economy governments to respond to the long list of EU demands. The elimination of tariff preferences for these countries, in turn, provides EU officials with something to offer at the negotiation table.

Regaining leverage, by the same token, is at the core of the recent European Commission proposal on Government Procurement (GP). The regulation, which indirectly targets Chinese public procurement practices, would allow EU Member States to exclude bids from companies located in countries that are not parties to the WTO Government Procurement Agreement (GPA) and do not grant EU-producers access to public procurement markets comparable to EU practices. ‘Reciprocity’, in EU official-speak, is likely to be the new touchstone when it comes to tackling difficult negotiating partners through EU market foreclosure in the future.

Other recent defensive postures, however, are testament to genuine protectionist pressures arising from the economic turmoil of recent years. The current economic climate appears to have divided the EU, broadly speaking, into a highly competitive northern pro-trade alliance, on the one hand, and a protectionist southern coalition struggling with the impacts of the crisis, on the other.

Along these fault lines, respective political battles have been fought out in the arenas of the Council of Ministers and the European Parliament (EP), with the European Commission in the role of a biased mediator in pursuit—so far, successfully—of open and reciprocal trade relations. Examples *par excellence* that demonstrate the north-south divide on

\(^2\) According to the World Bank country classification.
trade include the political processes leading up to the adoption of the EU-South Korea FTA by the European Council, the adoption of a safeguard mechanism for the EU-South Korea FTA by the EP, and the Commission’s initiative to grant flood assistance in the form of trade preferences on textile products to Pakistan following the natural disaster of 2010. Most recently, the reform of the EU’s procedural rules for the employment of trade defence instruments by the Commission has surfaced similar divisions. The months-long stand-off eventually resulted in a partial victory for the coalition of southern EU Member States (including France), which advocated for looser procedural requirements for the use of anti-dumping, safeguard, and countervailing measures against third countries.

There has been a lot of white noise surrounding decision-making on trade policy in the recent past. This is particularly so since the EP has been given co-decision powers with the Council on trade policy matters in 2009. Parliamentary participation in the decision-making process has significantly changed the rules of the game and has rendered trade policy making in Brussels a highly political exercise, with an EP that has become a major target of all sorts of special interest advocacy.

The real test for the EU’s ambitions in the area of trade and investment policy will only come when the mass of agreements that are currently in the pipeline will arrive in the European Council and Parliament for adoption. Recent political quarrels may serve as a foretaste of what is to come. Given the grim short-term economic outlook, the European Commission will likely face considerable headwinds, blowing in from the European South.

U.S. Trade Policy Under Obama: Running on Empty

For the past several years, U.S. trade policy has been running on empty. Globally, the United States has been mired in the decade-long Doha Round negotiations at the WTO, now dead in all but name, but still blocking the path of alternative multilateral ways forward. At home in the United States, a cold political wind has been blowing. Popular anti-trade sentiment has fixated on high external U.S. trade deficits and alleged “currency manipulation” by China as well as job and investment flight and the danger of a “race to the bottom” on labour and environmental standards. A long-running political stand-off has developed among key U.S. constituencies, with polls showing that majorities of Americans think free trade agreements have caused more harm than good and that “offshoring” is a major cause of domestic economic woes. The trend in recent Congressional elections has been a swelling of the ranks of trade liberalisation opponents. This impasse on trade only deepened with the global economic downturn: the last thing struggling workers and producers want is the prospect of intensified competition from abroad.

Taking office in January 2009, the Obama Administration inherited these political difficulties on trade. Candidate Obama had blown hot and cold on trade in the 2008 presidential election. He jostled to position himself as the most anti-trade candidate during a long and bruising primary campaign, fought out to a large extent in rustbelt areas and aimed at winning core Democratic Party constituencies like organized labour. Upon securing the party nomination, Obama modulated his rhetoric and tacked to the centre. Predictions were that he would follow the
well-trodden path whereby Democrats campaign as protectionists then govern as free traders.

The outcome has been inconclusive. For the first couple of years the Obama Administration essentially took a pass on trade. Ron Kirk, a former mayor of Dallas, was widely viewed as a “caretaker” appointment as U.S. Trade Representative. There were few if any signs of a clear overall trade strategy. When they eventually emerged, plans for a government reorganization of U.S. trade-related agencies contained the proposal that US Trade Representative (USTR) be folded into a new super agency consolidating the functions of the Commerce Department, the Small Business Administration, the Export-Import Bank, the Overseas Private Investment Corporation, and the Trade and Development Agency. While government reorganizations are often proposed in Washington and seldom gain traction, this signaled a clear downgrade of the independent functions and status of USTR.

Meanwhile, there has been no sign of movement in the U.S. negotiating position on Doha at the WTO. The current stance is still determined to a large degree by the posture of the U.S. business community. Long dismissive of the Doha Round as insufficiently ambitious, the main U.S. business coalitions—the National Association of Manufacturers, the Coalition of Services Industries and the American Farm Bureau Federation—continue to take the position that “no deal is better than a bad deal.” Unless this changes, it will be difficult for any U.S. administration to sign up to any WTO deal. It would be pointless to seek the passage of any trade agreement through Congress without the support of key U.S. export interests.

Recently, however, there have been signs of a renewal of interest in future directions for U.S. trade policy. These have taken a strongly mercantilist tone centred on the prospects for export-led growth. Prior to the financial crisis, global trade had been steadily
expanding at twice the rate of global growth. With the state of the economy at the top of the U.S. political agenda, it is increasingly argued that trade will have to play a role in any domestic economic recovery. In his 2010 State of the Union Address, President Obama pledged to double U.S. exports in five years to create two million new jobs—an ambitious goal requiring considerable new market access opportunities for U.S. products abroad. As a result, the political logjam on Capitol Hill has begun to ease, with long-delayed free trade agreements with Colombia, Panama and South Korea being passed into law at the end of 2011 on the basis of the inclusion of labor standards that both sides were able to agree upon.

The Administration is also pursuing negotiations over trade and investment partnerships with the Middle East and North Africa as well as U.S. membership in the Trans-Pacific Partnership (TPP)—the latter prompting speculation about an implicit U.S. strategy of “containment” towards China manifesting itself in the trade realm. A High-Level Working Group on Jobs and Growth has been launched with the European Union, and—as noted above—USTR is now looking into sectoral and plurilateral initiatives as well as bilateral investment treaties as possible elements of a proactive post-Doha trade agenda. In May 2012 the White House issued an executive order indicating a renewed effort to pursue international regulatory cooperation “consistent with domestic law and prerogatives and U.S. trade policy” as another means to reduce the barriers facing U.S. products overseas. Overall, export-led growth is the new watchword, epitomized by the National Export Initiative, an effort to marshal the full resources of the U.S. government behind a single comprehensive strategy to promote American exports.

The political and policy calendars for the next two years present a number of opportunities and challenges for U.S. trade policy. These include reauthorization of the U.S. farm bill, the renewal of trade preference arrangements with developing countries, discussions with the East African Community on a new trade and investment agreement, the annual African Growth and Opportunity Act (AGOA) summits as well as ongoing dialogues through the Trade and Investment Framework Agreements (TIFAs). With a presidential election looming in November, China, offshoring and unemployment will doubtless return to the political debate on trade.

Meanwhile, changes are taking place in markets that are leaving traditional policy approaches behind. Companies are developing ever-more-integrated global supply chains and working more and more intensively with overseas suppliers of goods and services. The supply-chain approach presents a new model for international business. It also presents a significant challenge to policymakers. Altogether, a stocktaking and new approach on U.S. trade policy is long overdue. This will require some creative new thinking and concrete proposals that build on the lessons of past approaches while avoiding their pitfalls. It will ultimately require a new political coalition capable of charting a course on trade that can be sustained in the fractious and fragmented U.S. political system.

**Chinese Trade Policy: More of the Same?**

China’s trade policy continues to derive largely from its broader national economic strategy. The push for WTO membership in the 1990s was closely tied to a
major process of domestic economic reform, which was at least as important a goal for China’s reformers as WTO membership itself. The ambivalent attitude to the implementation of its WTO accession protocol followed the weakening of the reformers, and the strengthening of the view that not only had China “done enough” but that the agreement itself may have gone too far for the tastes of Chinese policymakers (and businesses). More recently, the escalation of trade tensions with China’s major partners over market access issues is integrally linked to Beijing’s efforts to promote national champions, and the relentless growth in the power of China’s State Owned Enterprises (SOEs). Geopolitical considerations have also played a role—the establishment of a Sino-centric economic order in Asia is as much a strategic project as an economic one—but the best way to analyze and predict Chinese trade policy is to start with the domestic.

In this respect, China is at an important juncture. At the peak of the global economic crisis, it took a number of measures to sustain growth through the course of a downturn in all of its principal markets. Steps such as the $586 billion stimulus package, the huge enforced increase in lending from Chinese banks, and the freeze in the appreciation of the RMB certainly maintained growth levels through the crisis but they also accentuated a number of imbalances in the Chinese economy. There is a growing recognition among Chinese policymakers that steps need to be taken to increase consumption, reduce investment levels, reduce dependence on exports, and strengthen the private sector against the SOEs. But there are also powerful interest groups resisting the initiatives that would be required.

With the leadership handover due to take place in a six month period following the Party Congress in late 2012, it is highly unlikely that either the coming months or the first half of 2013 will see any political initiative to bring about major reform. The recent crisis over Chongqing Party Secretary Bo Xilai only accentuates this. The result for China’s trade profile in the coming year is quite clear: more of the same. China is likely to continue to hold down the value of the currency to protect an export sector that suffers from excess capacity; it will continue to try to protect a number of sectors through subsidies and restrictions on market access; and even though consumption levels will grow in absolute terms, the larger proportion of its imports will continue to be focused on its production needs.

For the most part, China can therefore be expected in the coming phase to have more defensive interests than offensive ones. Since tensions with its largest trading partners are set to continue, it will look to preserve its market access and defuse the risk of trade wars. In a similar pattern to the previous couple of years, this will involve a mix of politically timed currency appreciations, buying trips, selective concessions in sensitive areas (such as the reversal of its indigenous innovation policies), and a robust defence of its practices at the WTO against the wave of cases that have been initiated.

Less certain is how China will respond to the challenge in its own neighbourhood. China has sought to preserve and expand its position at the heart of regional trade and economic networks but new initiatives from the advanced industrial economies are now seeking to rebalance this. The Trans-Pacific Partnership (TPP), the proliferation of the EU’s FTAs in the region (dubbed “Asia-minus-one” by some), and even Japan’s efforts to reduce its perceived dependency on the Chinese economy have certainly taken the initiative away from Beijing. If
the TPP succeeds—and particularly if Japan takes the difficult steps needed for it to join—the risks to China of being cut out of a newer wave of high-quality plurilateral and bilateral trade arrangements will be felt acutely. Aside from some apprehensive public statements, there has been no direct response from China to the TPP, but it has moved to play catch-up with the EU and U.S. FTAs with South Korea, both bilaterally and through a potential trilateral FTA with Japan and South Korea. The concern for China is not simply the politics of regional leadership but that the trade “action” will move outside its control, with the WTO framework less central, standard-setting dominated by the other major economic powers, and the higher-quality investments in technology and R&D attracted elsewhere.

For China’s reformers, this may provide an additional stick, just as WTO membership itself was in the past: rebalancing domestically is increasingly required for Beijing to get back on the front foot in shaping its external economic environment. Everything about the political timetable though suggests that the earliest that this might even be a possibility is late 2013—and in the meantime, while there will be plenty of Chinese tactical responses in the trade field, there will be rather less of a strategy.

Conclusions

In the absence of a clear multilateral framework for trade negotiations, an understanding of the individual trade and investment strategies and initiatives of the major economic powers—and in particular, of the three economic giants of the EU, U.S., and China—is critical for an appreciation of the directions that international economic integration might take in the near future.

Absent a new political narrative on trade and some difficult political bargains, the United States—the driving force behind half a century of global trade liberalisation—is likely to be the most hamstrung, unable to make major concessions unless there is a clear shot at significant mercantilist gains. Facing the impossibility of achieving such gains within the realm of multilateral negotiations, the U.S. has given up on the Doha Round. U.S. negotiators now seek to satisfy their business lobbies through the promotion of a plurilateral services agreement and engagement with eight (and soon, potentially, eleven) countries in the Asia-Pacific region, which has become the focal point of both U.S. geopolitical and economic interests. The outcome of either project, however, is far from certain, and much will depend on a complex set of political contingencies in partner countries as well as the Obama Administration’s ability to break the longstanding deadlock and chart a new course on trade. The prospects for such an ambitious agenda in Washington do not look particularly bright given the forbidding political calendar.

However, domestic political commitment to a bilateral trade and investment agenda could gain significant momentum in the United States if the EU remains successful with its current ambition to cover the commercially attractive regions of the world with deep and comprehensive trade and investment agreements. In this respect, Southeast and East Asia make for competitive liberalisation battlegrounds par excellence. U.S. policymakers cannot afford to stand idly by while EU negotiators conclude FTAs with important trading partners such as Japan, Indonesia, Malaysia, or Singapore—and vice versa. EU
trade officials, on the other hand, could soon face domestic political obstacles similar to those of their U.S. counterparts, as the dynamics of the current economic crisis raise protectionist pressures within the EU that increasingly find their release valve in the political arenas of the Council of Ministers and the European Parliament.

China, with its current lack of a clear economic integration strategy, could be wrong-footed if EU and U.S. regional and plurilateral initiatives prove to be successful. This is even more so in light of the fact that the costs of such success for China go beyond the mere loss of competitive edge vis-à-vis EU and U.S. goods and services exporters and investors in its immediate neighbourhood and elsewhere. The behind-the-border dimensions of 21st century ‘deep integration’ FTAs may, in fact, change the rules of the game in favour of the transatlantic partners. Should the EU and the U.S. manage to use their FTAs as a vehicle to disseminate their approaches to standard setting and conformity assessment, competition policy, intellectual property protection and other behind-the-border regimes, Chinese traders and investors will face considerable adaptation pressures that could come at high nominal costs and a further loss of competitiveness. Only time will tell whether such considerations will inspire the new generation of Chinese political leaders to take a more proactive stance in shaping the future directions of international economic integration.

In the meantime, however, the default setting for global economic leadership will rest with the policy strategies of the transatlantic economic superpowers and their tactics in the face of numerous challenges at home and abroad. Going forward, given the considerations at play in each political system, the stage seems to be set for a mixture of arm-wrestling contests and three-legged races.
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