THE GLOBAL TRADE PICTURE FROM WASHINGTON

Meredith Broadbent

A retreat into trade protectionism after October 2008 is the dangerous dog that did not bite the international economy. Contrary to what might have been expected, the severe economic dislocations of the financial crisis have not led to a wholesale retrenchment in international trade. The World Trade Organization (WTO), established as a safety break against unsavory domestic political instincts, can claim a solid victory. It militated against the recoil of countries behind high tariff walls.

By standing solidly as the agreed arbiter of nondiscrimination and national treatment, the WTO has warded off the worst tendencies of national governments to embrace protectionist pressures. To be sure, state subsidies (for autos and green technology, to name a few) expanded in 2009 and government procurements became less open with the growth of "buy national" and "buy local" schemes worldwide. But subsidies and government procurement are areas where international trade rules have never been particularly strong. Time will tell for certain, but it looks like WTO disciplines designed to keep markets open, a system constructed and staunchly defended by the United States since 1934, held up as intended.

What may be taking root in the United States is a less obvious threat to the health of global commerce. Whether or not it is in reaction to the global economic downturn, an inward-looking, self-absorbed posture on trade matters has gripped the United States. This contrasts with the historic leadership role the United States has played in molding the WTO and establishing NAFTA, the legacies of which worked to the advantage of the United States when the global economy came under stress.

The logjam over the three pending free trade agreements (FTAs) seems to illustrate the new milieu. Lack of a domestic political consensus on trade is translating into paralysis and indecision in the view of our trading partners. U.S. Trade Representative Ron Kirk recently told an U.S. industry group that "through collective dialogue and constructive

consensus-building, together we can bring about shared prosperity to our peoples through trade." Presumably, Ambassador Kirk meant collective dialogue and consensus building with advocates of more international trade agreements and with trade skeptics in the U.S. Congress, two groups with diametrically opposing views on the role of the United States in the world economy.

Nevertheless, as the partisan discussion in Washington rages over the U.S. budget deficit, behind the scenes President Obama and Congress are setting the table for a needed national debate on U.S. trade policy. The first step was the president's National Export Initiative (NEI), announced last year, which establishes the goal of doubling U.S. exports by 2014. With economic growth now hovering at an annual rate of 1.8 percent, the president acknowledges with the NEI that the United States cannot afford to forgo the opportunities to create jobs through more trade. That said, increased trade promotion activity by the Department of Commerce and additional Export-Import Bank financing for small businesses, both part of the NEI, are much less significant in their effects on job creation than opening new markets under new trade agreements.

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Hence, the second piece of groundwork being laid for the coming trade debate is President Obama's somewhat delayed embrace of three pending free trade agreements concluded by President George W. Bush with South Korea, Colombia, and Panama. After negotiating supplementary deals on auto trade with South Korea and with Panama to crack down on international tax evasion, Ambassador Ron Kirk says those two agreements are ready to be submitted to Congress. The likelihood of successful approval of the U.S.-Colombia FTA, the most difficult politically for the White House because of opposition from the AFL-CIO, has increased in recent weeks following Colombia's commitment to implement an agreed "Labor Action Plan."

Until recently, the White House had intended to submit the three FTAs to Congress one at a time. The strategy was that a strong vote on the U.S.–South Korea FTA would help pave the way for an easier vote on the more controversial U.S.-Colombia FTA. However, the Republican leadership in Congress, joined by Senate Finance Committee chairman Max Baucus and House Minority Whip Steny Hoyer, has made known its strong preference for considering the deals "within the same time frame." These pro-trade members may see joint consideration of the FTAs as a guard against the Colombia FTA being left behind. In the Congress, said a leading Democratic strategist, "all roads to Korea lead through Colombia."

It is not unusual for difficult political issues to become linked and subsequently stalled in Congress. The impasse on implementing FTAs with South Korea, Colombia, and Panama has led to collateral objections to renewing duty-free treatment for imports under the Generalized System of Preferences (GSP) for 129 beneficiary developing countries. The Andean Trade Preference Program has also expired, resulting in higher duties for Colombian exports to the United States until the U.S.-Colombia FTA is enacted.

Add to this soup of trade business President Obama's announced intention to work to bring Russia into the WTO in the near future. This will entail a vote on legislation to remove Russia from the Cold War–era Jackson-Vanik statute, which requires annual renewals of Russia's most-favored-nation (MFN) trade treatment. Granting Russia permanent normal trade relations status will be a hard political lift in anyone's estimation.

A victory for the president on the three pending FTAs (and on these other trade matters that might come in a companion omnibus trade bill that would move together with the FTAs in Congress) cannot come too soon. The worldwide desire to further economic growth and efficiencies through the removal of trade barriers, often on a piecemeal basis, is fostering a relentless surge in the negotiation of FTAs by all of our economic competitors, including China, Brazil, and India and the rapidly growing countries in Southeast Asia.

It is hard to overstate how fast this trend is accelerating and how absent the United States has been from the process, relative to the historical role it has played in shaping the trading system to its advantage. As of July 2010, the WTO counted 230 FTAs in place worldwide, with many more in the process of being negotiated. Of these, the United States participates in 17, many of which are with tiny markets and all of which were negotiated five or more years ago. If the United States can deliver on commitments to South Korea, Colombia, and Panama to implement the deals that have been penned years ago, U.S. trade negotiators will be back in the game as credible players in this race to rewrite regional rules of international commerce.

Nowhere is momentum and U.S. influence more important than in Asia, where the United States has joined the ongoing Trans-Pacific Partnership (TPP) negotiation with eight other nations: Singapore, Australia, New Zealand, Chile, Peru, Brunei Darussalam, Vietnam, and Malaysia. A victory on the three pending FTAs this summer will set the United States up well to push these talks to a point of identifiable progress (such as an agreed framework or agreed chapters) by the time the president hosts TPP countries, along with 12 other heads of state, at the Asia Pacific Economic Cooperation (APEC) Summit in Hawaii in November 2011. The TPP negotiations are moving to a stage where U.S. positions on sensitive and controversial issues like intellectual property protection, labor, and the environment will have to be tabled by the United States in the form of specific negotiating proposals in legal text.

Because of the deadlock on the three FTAs, the United States is many months, if not years, away from considering actual "fast-track" authorizing legislation for the TPP that would be expected to include concrete U.S. negotiating objectives for these talks. In the arcane world of U.S. trade policy, these consensus negotiating objectives for the executive branch, compromised and honed by the crucible of the legislative process, would present clear guidance to U.S. trade negotiators. Absent any such objectives, Ambassador Kirk's leadership will be tested as he tries to divine where the domestic consensus on these very controversial matters lies. Getting the backing of key constituencies in his own party, as well as that of Republican trade leaders, will require some deft maneuvering that would be made easier by a strong victory on the pending FTAs.

With or without the United States actively involved in TPP trade negotiations in Asia, China will continue to negotiate new trade agreements that set standards that may not be favorable to U.S. farmers and businesses. If the trade agenda moves forward in Washington, frustration with China's trade practices may come to a head in Congress. U.S. negotiators are keenly disappointed with the lack of progress in the WTO Doha Round talks. By most measures, China has declined to make substantial offers in Doha to open its market further, particularly to imports of industrial goods. It may be that Americans reevaluate economic relations with this trade powerhouse whose exports are protected worldwide by WTO rules.

More analysts are beginning to agree that China's entry into the WTO in 2001 has not been followed by the transition to freer markets in China to the degree that was expected. There is a general sense among some who supported China's WTO accession that evolutionary progress toward a less controlled market in China has stalled and that China, in fact, has redoubled its commitment to state authoritarian capitalism. Many observers see China as trending more in the direction of expanding state involvement in the economy, characterized by generous subsidies and measures to force U.S. firms to divulge sensitive intellectual property to Chinese competitors. Trade relations with this country are growing increasingly rocky. If a trade package is considered in summer 2011, it is possible that amendments may be offered aimed at shielding U.S. producers from certain Chinese trading practices on currency and other matters.

It is conceivable that members of Congress could take the opportunity presented by an omnibus trade bill to develop some new regional trade initiatives—for example, a roadmap for negotiating FTAs with reforming countries in the Middle East such as Egypt. There is also an interesting new industry proposal to expand the highly successful Information Technology Agreement (ITA) to include more countries and greater product coverage. Updating the ITA would respond to the ever-growing significance to the U.S. economy of trade in sophisticated electronic products and digital commerce conducted over the Internet.

Finally, Congress would do well to reconsider U.S. trade relations with India and Brazil, in light of the Doha Round's failure to improve U.S. trade flows into these markets that are growing four times as fast as the more-developed economies.

In sum, if the budget debate subsides, there is hope that portions of the daunting backlog on the trade agenda will be tackled. The table is set and the pieces are in place for the United States to make some important decisions about how it will pursue more prosperity in the international economy. ■