THE U.S. TRADE AGENDA: AMBITIOUS, BUT PROBLEMATIC

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The Obama administration’s recent actions have caused trade policy observers to be simultaneously enthusiastic and skeptical. Who can blame them? In the President’s first term, the trade agenda could be fairly described as minimalist. President Obama oversaw a trade policy focused on enforcement (exemplified by 13 WTO disputes) with an occasional dose of domestic protection (such as the Section 421 tariffs on Chinese tires). Three FTAs concluded in 2007 remained pending until after the 2010 elections, when newly-empowered Republicans forced the issue and helped deliver a bipartisan achievement.

Well, forget minimalism. Less than three months into the second term, the agenda is suddenly and improbably ambitious. The Trans-Pacific Partnership (TPP) gained increased commercial relevance with the news of Japan’s intent to join the negotiations. The February 21st State of the Union address included the President’s pledge to launch the Trans-Atlantic Trade and Investment Partnership (TTIP), and the annual Trade Policy Agenda report released March stated that the Administration intends to seek Trade Promotion Authority (TPA) from Congress this year, which would allow for expedited consideration of completed agreements.

For fans of economic freedom, the new agenda holds exciting promise. But substantively, it amounts to the most complex and potentially problematic agenda in the past 20 years, since the near-simultaneous conclusion of both NAFTA and the GATT Uruguay Round.

GOALS, MEET REALITY

Washington observers have been quick to catalog the problems. Many agree that the Trans-Pacific Partnership will be massively difficult to conclude due to its high level of ambition and the diversity of membership. Dozens of complex, politically-charged decisions must be made to achieve an outcome that can be viewed as a win to domestic constituencies as different as Brunei and Canada. Furthermore, if Japan joins it’s highly unlikely that the parties will meet their completion date of October 2013, making it the third year of missed deadlines.

TTIP raises another set of challenges. First, Europe continues to suffer in a serious recession, contracting 0.6 percent of GDP in 2012 and forecast to fall further in 2013. Trade liberalization is a “hard sell” to voters in tough economic times; EU leaders must do so at a time when unemployment exceeds 10 percent. Second, while the U.S.-EU economic relationship is deep and important, many of the issues that must be settled in a comprehensive FTA have proven intractable.
Both TPP and TTIP face time pressure to deliver versus expectations. U.S. negotiating partners have other options, like the RCEP in Asia and the WTO International Services Agreement. Both agreements cut deeply into domestic regulation, where divergence is deeply-rooted and controversy has increased even as barriers at the borders have fallen. And the negotiation of two large, complex agreements simultaneously will strain people and processes in the face of sequester-driven budget austerity.

A PATHWAY TO SUCCESS?

Many of us want both TPP and TTIP to succeed for the benefit of all involved. Trade liberalization can boost growth at a moment when growth is desperately needed. I'm personally convinced the Administration can partner with a distinctly pro-trade Congress and will be “pushing on an open door” when it engages on Trade Promotion Authority and implementing legislation. But what needs to be done to overcome the obstacles? Let me suggest two initial areas for attention:

1. Leadership on Scope and Timing Is Essential

Both agreements aspire to be comprehensive and groundbreaking, particularly on “21st century” disciplines. Boldly, the White House says it wants to do TTIP on “one tank of gas” knowing they operate in a milieu where the U.S.-Colombia FTA took eight years from launch to ratification. For the President to deliver on this promise, he will need to supply clear, consistent leadership to matters of scope and ambition on both TTP and TTIP. Such leadership would be evidenced in substantial collaboration with Congress, mobilization of resources in multiple agencies, and action to resolve inevitable disputes within and between executive agencies. Many TPP issues, as well as the likely U.S.-EU sticking points, are well-known because they are longstanding. None of these matters are likely to “improve with age;” in fact, based on the experience of the TABD and other fora over the years, a resolution will not be found in extended debate.

2. “Tradeoffs” Should Occur Within, Not Between, Industries

Every trade agreement has endgame compromises which are tailored at the political level and which can substantially affect the final deal. Whether it's trading off sugar for investor protection (U.S.-Australia FTA) or autos for pork (U.S.-Korea FTA), these bargains are almost always cross-industry. However, cross-industry concessions are usually evidence of a failure to understand the industries themselves. Consider a “sensitive” sector like apparel. There are a wide range of U.S. firms with differing business models operating within every sector. Some have embraced modern global supply networks while others follow a business model that exposes them to import competition. Trade agreements should never simply reinforce the status quo which ultimately hinders industry modernization. Officials should instead work to craft provisions which incentivize the industry to modernize to the point where individual firms no longer need the crutch of trade protection.

The Obama administration deserves credit for vision and boldness in their trade agenda. Moving from rhetoric to results will take serious effort and leadership—from all parties, both inside and out of government—in the months ahead. Principled U.S. leadership, starting at the top, is the ingredient for which there is no substitute. ■

The Forgotten Person: The US Tomato Consumer

By Clare Richardson-Barlow

Trade in tomatoes was controversial long before NAFTA first reduced tariffs on Mexican imports in 1994. But since NAFTA, Florida growers led a campaign against Mexican tomato imports. The U.S. government intervened in 1996 in the form of a “minimum price agreement.” On March 3, 2013, the “minimum” import price was raised yet again. The new deal, celebrated by the Commerce Department, artificially prices Mexican imports nearly 50 percent above the 1996 level. An obvious problem with the action is that it assumes that two different types of tomatoes, with two different uses, are the same product. Florida “gas green” tomatoes, less flavorful but favored by the fast food industry for their easy slicing, are artificially ripened. Mexican tomatoes are vine-ripened and sweeter, thus preferred by consumers. Absent intervention, one would expect the market to pressure growers to differentiate their offerings and specialize in satisfying two different buyers.

While the inevitable price increases are still working through the supply chain, there's no doubt that the new agreement will be disruptive. It's reasonable to expect lower demand for Mexican tomatoes, and declining imports will affect U.S. jobs in transportation, distribution, and retailing. When the U.S. government “puts its thumb on the scale,” it discourages producer innovation while forcing consumers to pay more for groceries. Truly a lose-lose situation.