TRADE PROMOTION AUTHORITY AND
GLOBAL VALUE CHAINS

SCOTT MILLER

U.S. Trade Representative Michael Froman has been clear that President Obama will seek Trade Promotion Authority (TPA). Senate Finance Committee Chairman Max Baucus and House Ways and Means Committee Chairman Dave Camp both have endorsed the idea. Trade (along with tax reform) appears to be an area for cooperation. What happens next?

THE CONTOURS OF TPA

There is general agreement that the administration will not be able to conclude the big, complicated international trade negotiations it has launched without TPA, which modifies the rules Congress uses for implementing bills to assure a vote on the legislation without amendment and by a certain date. Absent TPA, our negotiating partners would be expected to make their best offer only to expose the deal to amendment and renegotiation by 535 legislators. In practice, TPA isn’t foolproof, but a new grant of TPA is well worth having.

Legislation which authorizes TPA typically includes three components: a set of negotiating objectives, specific requirements for consultation, and delineation of the special “fast track” procedures for trade bills. Each of the three parts can generate its share of controversy. In 1997, the House failed to move a “fast track” bill principally due to disagreements over negotiating objectives for labor and environmental standards. In 2001, competing proposals for how to handle congressional consultations were bitterly contested before a TPA bill passed the House by one vote. Even the section on “procedures” can be the subject of dispute, knowing the way legislators guard their prerogatives. Securing a grant of TPA will consume time, energy, and political capital, and a successful outcome will demand compromise between the administration and both houses of Congress.

For now, let’s set aside the politics of a TPA bill, as well as the issues usually linked with TPA like Trade Adjustment Assistance (TAA), and focus on negotiating objectives, specifically whether those in past grants still represent the interests of the United States in the world economy of 2013.

NEW TRADE VS. OLD POLICY

If a geologist were to examine U.S. trade policy, he or she would likely label it a “sedimentary” formation. The bedrock in this formation is the Trade Act of 1974, which created the special trade representative (now USTR) and first established “fast track” procedures for implementing bills. Methodologically, all subsequent grants of TPA have settled as layers on the 1974 Act, with incremental changes to reflect the concerns of the day. Progress has been made—for instance, issues such as labor and environmental standards have been subject to intense refinement, from
a bare mention to equivalent disciplines. As well, U.S. trade officials have effectively “filled in the blanks” on new areas like digital commerce.

However, the commercial environment for globally engaged enterprises has changed fundamentally since 1974 and simply replicating past objectives would make a “Trade Act of 2013” about “priorities” which no longer reflect the actual business practices of U.S. companies.

VALUE CHAIN THINKING AND DOING

The rise of IT-enabled global value chains (GVCs) presents a challenge to the way we look at the world economy. Today, GVCs have an enormous impact on economic performance and should influence both the way the United States organizes its trade policymaking and the objectives Congress sets for negotiations. As an example, GVCs mean that exports have substantial import content— the foreign content of U.S. exports has risen from 7 percent in 1970 to 22 percent in the late 2000s. Since imports are essential for exports, import tariffs amount to a tax on exports. In 1974 it may have been reasonable for trade policy objectives to be formulated considering only exports. Today, we should be proposing ways for the United States to be a better importer, both for the benefits imports bring to consumers as well as to boost export competitiveness.

The role of imports is just one element of GVC performance. The increased impact of trade-related regulation, as well as the importance of services and investment in value creation, deserves equal attention to traditional export performance objectives. Reducing tariffs is a good starting point, but GVC performance requires efficient services and the possibility to move people, capital, and technology across borders.

TPA will require both the administration and Congress to operate in ways that promote collaboration and cooperation. The need for congressional-executive branch cooperation on trade policy is even more important today than it was nearly 40 years ago. The administration’s negotiators need to go beyond informing a handful of key members; they must work to gain the confidence and respect of all members. Congress, for its part, needs to recognize how complex trade and investment negotiations have become, and ensure that its oversight is timely and effective. In the end, securing TPA is worth the effort—it supports an agenda which yields growth and prosperity.

Look out for: Upcoming Events

September 12, 2013: APEC Bali Leaders’ Meeting: Preview Conference
September 19, 2013: Commercial Innovation Conference

The Forgotten Person: Recipients of U.S. Food Aid

The Obama administration proposed a major reform to food aid policy during this year’s congressional review of agriculture programs known as the 2013 Farm Bill. The United States is the world’s largest provider of food aid and the programs have a big impact on foreign policy, international development, and agriculture trade. Reform is badly needed. For instance, under current law, 100 percent of food aid must be purchased from U.S. producers, 50 percent of which must be shipped on U.S.-flagged vessels—selective purchasing mandates that would be criticized loudly in Washington if practiced by other governments. The program spends about half its revenues on shipping costs, delivery takes an average 130 days, and 25 cents of each dollar is lost through shrinkage and waste. The administration’s proposal focused on developing local suppliers and distributors, and would have saved taxpayers $30 million per year while feeding 2.4 million more people.

Disappointingly, this sensible reform was ignored on a bipartisan, bicameral basis. Both the (Democratic) Senate and the (Republican) House voted to extend the current approach, and the administration has given no indication that this is a problem. But until the next Farm Bill is considered five years from now, inefficient domestic producers will continue to receive subsidies while the world’s hungry lose out.