

Trade policy does not top President Obama's agenda, but the world financial crisis and other currents abroad may force him to tack directly into heavy trade winds.

■ Obama and the Issues

Keeping the Bazaar Open

■ By Bruce Stokes

FEWER GOODS: Cargo ships unload their containers at the Port of Miami in January. The World Bank predicts that the global volume of trade will shrink in 2009.



GETTY IMAGES/JOE RAEDLE

Democrats have been suffering from a trade headache for years. In the 1980s, trade defined the confrontational relationship between the Democratic Congress and President Reagan. In the 1990s, President Clinton's support for the North American Free Trade Agreement and globalization cost the party votes. Now it is

President Obama's turn to wrestle with this divisive issue. And all indicators point to him falling off the prevailing winds rather than heading into them.

During his mid-February visit to Canada, Obama told the CBC network that "one of the most important things" in confronting

the global financial crisis "is that each country does not resort to protectionist policies."

Despite lingering worries raised by Obama's criticism of trade during the presidential campaign and the flap over the "Buy American" provision in the economic stimulus package, Wash-

ington observers expect the administration to be pro-trade, if not vigorously so.

“The Buy American fight was instructive,” said Frank Vargo, vice president for international economic affairs at the National Association of Manufacturers. “Despite very strong support for Buy American by labor and sympathy in Congress, the White House said we have to stick by our trade agreements.”

The Obama team is hardly likely to make trade a priority, however. “Their inclination is to let sleeping dogs lie,” said Ed Gresser, director of the trade project at the Progressive Policy Institute. With congressional Democrats deeply divided on the issue, the public wary, and the prospects slim for significant new export opportunities, few observers expect much White House leadership on trade in the next year or so.

Speculation about the Obama administration’s trade policy comes amid the implosion of international commerce. The World Bank predicts that the volume of trade will shrink in 2009 for the first time in more than a quarter-century. U.S. exports, which at one point were fueling the nation’s economic growth, have slowed. In December 2008, U.S. sales abroad were down 12 percent in value compared with shipments in December 2007. Those numbers could worsen as other nations slide into recessions that may be deeper and last longer than the downturn in the United States.

Policy Tug-of-War

American voters are divided, with 47 percent telling pollsters that international trade is a threat to the economy and 44 percent calling it an opportunity, according to a Gallup survey in early February. This split is evident in the evolving composition of the House Democratic Caucus. More than four dozen new Democrats have joined the chamber over the past two elections and a significant proportion of them are trade critics.

This rising congressional skepticism poses a political dilemma for Obama’s economic advisers, particularly Lawrence Summers, director of the National Economic Council, who business lobbyists think will help shape trade policy and who generally supports globalization. “Trade is a tug-of-war between their policy instincts and their political instincts,” said Bill Reinsch, president of the National Foreign Trade Council. Looking at tough congressional votes on domestic economic issues over the next year or so, he said, the White House may be loath to spend political capital on trade fights any time soon.

But Obama may not have the luxury of choosing his trade battles. The recent contretemps on Capitol Hill over the stimulus legislation’s Buy American provision is a case in point. It calls for the use of U.S. iron, steel, and manufactured goods in all public works projects but also allows for waivers.

“The Buy American initiative is a 19th-century initiative for a 21st-century economy,” said Calman Cohen, president of the Emergency Committee for American Trade, an industry group. In a world of global supply chains, Cohen argues, deciding what is American and what is not will prove more difficult than it sounds.

The devil is in the details of the waiver language, which permits a department secretary or agency chief to bypass the Buy American rule under certain circumstances. “A lot of [the administration’s policy] will be decided in the implementation,” said Thea Lee, policy director of the AFL-CIO, “and [in] how many waivers are there and how transparent are they.”

Another complication is that trade is inextricably linked to the rest of foreign policy, especially in the eyes of those abroad. As U.S. officials look for cooperation from Pakistan or China on a range of issues, they are likely to be pressed for trade concessions or at least forbearance in trade disputes. Obama’s policy makers “will be hit with all this stuff they would prefer to avoid,” Reinsch said, “but other people are going to throw it at them, and they will have to deal with it whether they like it or not. They will have to have a trade policy because they won’t have any other choice.”

The White House has yet to spell out the details of that policy except for perfunctory presidential commitments to international agreements. Given candidate Obama’s criticism of NAFTA and his opposition to proposed trade deals with Colombia and South Korea, the business community and foreign audiences are anxiously waiting for the administration to fill in the blanks of its trade agenda. They will have to wait at least until the Senate confirms key Obama nominees for the U.S. Trade Representative’s Office and the Commerce Department.

Pending Agreements

The Doha Round of multilateral trade negotiations will be the first major issue on the White House’s trade agenda, a leftover from the Bush administration. Business interests have already told the White House that positions on the negotiating table in Geneva last July, when the long-running talks broke down, are no longer acceptable.

According to Cohen, “Unless the key developing countries—China, India, and Brazil—are willing to further liberalize their markets, open them up to the United States, Europe, and the less-developed countries, the probability is low that we will get a breakthrough.”

Frustrated with the lack of progress in the Doha Round, the Coalition of Service Industries, which represents a range of interests from insurers to architects, has suggested initiatives to liberalize trade in services sector by sector, modeled after similar multilateral agreements reached in the 1990s on telecommunications and financial services. The group’s goals might include services-only free-trade agreements with Japan and the European Union. “In this climate,” said coalition President Robert Vastine, “we have to negotiate with those who can and will, not with those who can’t and won’t.”

Free-trade agreements that the Bush administration negotiated, and initialed, with Colombia, Panama, and South Korea have not yet been approved by Congress.

The Panama deal, the least controversial, may move in the second half of this year, if only so that Democrats can demonstrate that they are not reflexively anti-trade. Rep. Charles Rangel, D-N.Y., chairman of the House Ways and Means Committee, has said that lawmakers should also be able to work out a solution on Colombia that resolves Democrats’ concerns over labor rights in that country. Many observers expect little movement on that deal until the first half of 2010.

The South Korean agreement is the most troublesome for the administration because officials will not want to push for allowing more Hyundais into the country while taxpayers are bailing out General Motors and Chrysler.

This is the seventh in an ongoing series looking at an issue on President Obama’s agenda. The entire series can be found at NationalJournal.com/agenda. Next week: Internet policy.




POLICY AGENDA


Legislation enacted


Executive order issued


KEY


Has Obama held his **position steady** since the presidential campaign, made a **course change** from his 2008 promises, or pursued an issue **new on his agenda**?


-  **Position steady**
-  **Course change**
-  **New on agenda**


 **Renegotiating NAFTA:** Candidate Obama called for renegotiating the North American Free Trade Agreement, but as president he now talks of “incorporating” labor and environmental standards into the accord.

 **Other agreements:** Obama opposed the Colombia and Korea free-trade agreements now pending before Congress and wants them reworked.

 **China:** During the campaign, Obama criticized Beijing for manipulating its exchange rate. But when Treasury Secretary Timothy Geithner recently repeated this criticism, the White House distanced itself from his remarks.

 **Doha Round:** Obama has called for wrapping up the multilateral trade talks, but U.S. farms and businesses want more out of any deal. Completion is unlikely before 2010, if then.

 **Displaced workers:** He called during the campaign for a stronger social safety net for workers displaced by trade. Obama got the additional assistance in the economic stimulus bill.

 **Trade enforcement:** Candidate Obama promised stronger enforcement of trade laws. Congress, too, supports tougher action.

INTEREST GROUPS

AFL-CIO: Labor has long supported “fair trade” and sought tougher labor standards in trade agreements. The AFL-CIO opposes the Colombia and Korea agreements.

National Association of Manufacturers: The association is critical of the Doha Round for not delivering enough foreign-market access for U.S. goods.

Coalition of Service Industries: This group’s mounting frustration with the likely benefits of the Doha Round poses a major obstacle to congressional approval.

ADMINISTRATION PLAYERS



LIZ LYNCH

Lawrence Summers
White House economics adviser
Will shape broad outlines of Obama trade policy, reining in protectionist tendencies.



BETTANN EVAN

Ron Kirk
U.S. trade representative-designate
A former mayor of Dallas, he lacks experience with trade and Washington, and this may further weaken this agency.



LIZ LYNCH

Tom Vilsack
Agriculture secretary
The former Iowa governor has repeatedly said he opposes sacrificing U.S. agricultural interests in trade talks.



UPI/KEVIN DIETSCH

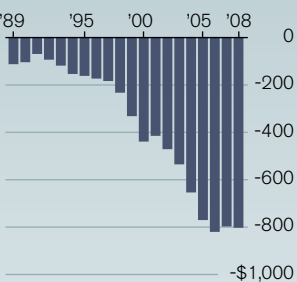
Gary Locke
Commerce secretary-designate
Washington state’s former governor has close ties to Boeing and will strongly promote commerce with Asia.



Michael Froman
Deputy national security adviser
Froman will be the sherpa to the G-7 and G-20 economic summits.

DATA POINT

U.S. trade deficit in goods
(in billions of dollars)



SOURCE: Census Bureau

ON THE HILL

House



Rep. Charles Rangel, D-N.Y.
Chair, Ways and Means Committee
A deal-maker not an ideologue, he may move the Panama free-trade agreement in the second half of 2009.



Rep. Sander Levin, D-Mich.
Chair, Ways and Means Subcommittee on Trade
A longtime advocate of manufacturing interests, he will be at the center of any effort to pass trade legislation.

Senate



Sen. Max Baucus, D-Mont.
Chair, Finance Committee
His state’s beef interests must be satisfied before the Korea free-trade agreement can pass.



Sen. Sherrod Brown, D-Ohio
Chair, Banking, Housing, and Urban Affairs Subcommittee on Economic Policy
A strong advocate for “Buy American” in the economic stimulus bill, he may lead the Senate trade skeptics.

"It would be insane to try to get Colombia or South Korea done this year," Lee said. "It would be a political disaster on many fronts."

The administration must decide whether to join negotiations for a broad trade deal involving Chile, Australia, Brunei, and other nations that border the South Pacific. The Bush White House signaled its interest in such a pact. The Obama team is unlikely to engage these nations without prolonged discussions first with Capitol Hill, especially because Vietnam, still a socialist economy, may be involved in the deal.

A more existential trade challenge is China, which now accounts for two-thirds of the non-oil U.S. trade deficit, thanks in part to its undervalued currency. Congress wants Beijing to take action to revalue the renminbi. The Treasury Department's report on exchange-rate issues due this spring may prove embarrassing if the administration does not cite China for currency manipulation, given candidate Obama's denunciation of Beijing's behavior. A formal complaint of manipulation requires no action other than consultation with the offending country. China would tend to take any such accusation as a provocative act and react negatively, however. Wall Street would also disapprove.

Veteran Washington trade observers say that the administration could cite China for manipulation but then argue that Beijing was not acting with the intent to distort trade. Alternatively, Treasury might sidestep the volatile manipulation issue by putting China on some sort of special currency watch list, not unlike the watch list for suspected intellectual-property pirates, as a way of suggesting heightened scrutiny without doing much.

Disputes and Enforcement

On the campaign trail, Obama promised tougher enforcement of existing trade laws. The bad economic times will elevate that issue. The number of new anti-dumping actions is likely to spike as the recession deepens. Private businesses initiate these complaints, which then have to be accepted by the government to proceed. The administration will have to weigh the merit of each complaint against its potential negative impact on the economy and the possible blowback from U.S. trading partners, who will undoubtedly characterize any such efforts as protectionist.

Organized labor will also pressure the White House to enforce the labor-rights provisions in existing trade agreements. In the past few years, the AFL-CIO filed cases citing violations of workers' rights by Jordan and Guatemala, both of which have free-trade agreements with the United States. The Bush administration pursued neither case. "We think it is enormously important," Lee said, "for the Obama administration to take a fresh look at these open labor-rights cases and demonstrate a real commitment to strong enforcement of the labor-rights provisions we have already negotiated."

Demands for stricter enforcement of trade laws will also come from Capitol Hill. Rangel has introduced legislation that would pressure the administration to go after foreign nontariff trade

barriers more aggressively. Such a measure would make it easier to take action against Chinese subsidies and make it more difficult for the White House to reject claims from American businesses that seek protection against surges of Chinese imports. Sen. Max Baucus, D-Mont., chairman of the Finance Committee, is also preparing enforcement legislation. Even if Congress does not pass a comprehensive bill, some elements of these proposals enjoy widespread support among lawmakers, so the administration may have to take some action against Chinese subsidies and import surges.

The Bush administration, meanwhile, left behind a batch of trade-enforcement fights pending before dispute settlement boards at the World Trade Organization, including cases against European subsidies of Airbus and European restrictions on U.S. poultry exports. The Obama White House will have to decide whether to settle some of these actions or pursue them. And even if the United States prevails on the questions of law in Geneva, Washington may face problems in enforcing some judgments, given the politically sensitive nature of these cases in Europe and China.

The trade community expects the Obama administration to launch more cases at the WTO. But Washington trade veterans warn that such ambitions could wane when administration lawyers face the prospect of initiating cases they cannot win or cannot enforce even if they prevail.

On the other hand, the administration's huge new subsidies for the auto industry and green technologies could open the U.S. to challenges at the WTO, especially if Washington succeeds in getting the WTO to outlaw European subsidies of Airbus.

In the end, much of the Obama trade policy may be shaped by events beyond the president's control. A prolonged recession will greatly complicate matters, distracting White House attention, fueling public demands for action against "unfair" trade, and increasing frictions with trading partners. Other Obama priorities could also ratchet up trade tensions. For starters, U.S. climate-change legislation may require border measures to ensure that carbon-intensive American manufacturers are not at a disadvantage when competing with Chinese and Indian producers. Such a move could generate huge international controversy.

Faced with such uncertainty, the business community hopes that the president plays to his strengths. "The Obama administration is in a powerful position on the international trade issue, and Capitol Hill is looking to the administration to help frame the agenda for the next two years," Cohen said. "It is critical that as soon as the Obama officials are in place they begin the dialogue with the Hill to foster a trade-liberalizing agenda that is consistent with President Obama's internationalist foreign policy."

Still, given the other problems the country faces, don't expect much trade action soon. ■

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Trade Rep Nominee

Ron Kirk, former mayor of Dallas (left), is expected to be confirmed as the U.S. trade representative this month.

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