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US Election Note: International Trade Policy after 2012

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Introduction

The 2012 presidential election is occurring as the US economy emerges from a significant recession. While trade is (a small) part of the campaign debate, it remains an emotional 'wedge issue' for the electorate, as it has been for the last 25 years. In January 2013, the new administration will address issues such as job creation, free trade agreements (FTAs), trade promotion authority (TPA, also called 'fast track' authority), and the trade deficit. Exogenous factors such as the unemployment rate, which party controls Congress and the global economic climate will dictate the speed and scope of engagement, and trade is likely to remain a political battleground for the foreseeable future.

Background

Trade's share of American GDP (30 per cent) is the second lowest among major trading nations (only Japan's is lower). In absolute terms, trade has a large impact on the economy. In 2010, total trade was worth $4.7 trillion, and exports accounted for over 10 million jobs and $2.1 trillion of economic output. Many policy-makers believe that the size ($558 billion) and persistence (over 30 years) of the US trade deficit impedes economic growth (tying up in interest payments money that could be better invested elsewhere). Dependence on creditor nations, particularly China, also creates strategic problems that affect other areas of policy-making.

Since the end of the Second World War, US presidents from both parties have to varying degrees embraced global trade expansion and pushed for lower tariffs, increased trade flows and a multilateral regime based on fairness, transparency and the rule of law. Policy-makers have generally agreed that trade liberalization increased opportunities for US businesses and created jobs.

However, beginning with the North American Free Trade Agreement (NAFTA) debate in 1992, popular resistance to globalization coalesced and international trade became a partisan political issue. Opponents, primarily pro-labour supporters from both parties and stakeholders in manufacturing-dependent states, distrust the unregulated nature of trade and the lack of protection for workers. They fear that trade leads to job losses as foreign competition increases and work that was once performed in the United States is outsourced. Moreover, public opinion surveys indicate that many Americans also think trade holds down wages and raises prices (the latter sentiment is directly contrary to what economists contend). There is also concern about the absence overseas of environmental and labour laws that comply with international standards. The pro-labour lobby in Congress has reliably supported economic assistance (known as Trade Adjustment Assistance, or TAA) for displaced US workers and has worked to add clauses addressing environmental and labour concerns to US trade agreements.

In contrast, trade advocates from both parties who support free enterprise and small businesses view trade as a net job creator for US companies. As two-way trade increases, American businesses can expand to new markets, selling more products. Factories will hire more workers to meet increased production, and more small businesses will be created. Displaced workers will retrain and shift into new industries. These supporters argue that concerns about environmental and labour rights protection in foreign countries are best left for their governments to address, not the US Congress.

In the decade after NAFTA's passage in 1993, the United States had FTAs in place with only three countries: Canada, Mexico and Israel. Between 2001 and 2009, President George W. Bush pursued a pro-free trade agenda, negotiating FTAs with 14 nations and increasing total US two-way trade from $2.5 trillion to $4 trillion.

Since taking office, President Barack Obama has supported trade liberalization, particularly promoting exports through the National Export Initiative (NEI).[1] At the same time, he has placated pro-labour advocates by renegotiating the FTAs with South Korea, Colombia and Panama (originally concluded during the Bush administration) to address labour and environmental concerns. The agreements were passed by Congress and signed in October 2011 – along with a TAA bill to help displaced US workers.

Policy positions

Whoever wins in November will be likely to address at least five trade issues early in his term:

- The Trans-Pacific Partnership (TPP), a multilateral Asia-focused trade pact initiated during the Bush administration and expanded under Obama, after 11 negotiating rounds, is likely to be concluded in the next 18 months. It is a trade priority for the United States, given growing inter- and intra-Asian trade and increased concern over China's economic influence in the region. President Obama has prioritized the TPP's multilateral approach, encouraging Japanese buy-in to cover most major Asian economies (except China). For Mitt Romney, a regional trade pact in Asia that excludes China is consistent with his pro-trade/tough on China worldview.
- Following Russia's accession to the World Trade Organization in December 2011, both Romney and Obama would push the trade agenda forward with the country (and possibly, and for different reasons, with Japan and the European Union too).[2] Although there is a near-term legislative challenge posed by the Jackson-Vanick Amendment, the Obama administration is looking to engage Russia more actively in bilateral trade negotiations. While Romney has controversially called Russia 'our number one geopolitical foe', and thus may be more circumspect, the market opportunity for US businesses is real (as is other nations' desire to trade with Russia) and in the end this may be the deciding factor.
- There is likely to be increased enforcement of US trade laws and international trade agreements through anti-dumping and countervailing duty measures and WTO enforcement actions. The Obama administration has expanded the resources devoted to protecting US businesses from unfair trade practices at home and abroad,[3] but it has moderated its position on China, particularly as it relates to currency manipulation. Romney, given his background and rhetoric, is likely, at least initially, to take a more assertive stance towards China and other nations he judges are behaving 'unfairly'.
- Both candidates are likely to press for Congress to restore TPA, which expired in 2007, and limits Congress to an up-or-down vote on trade agreements. The president's ability to succeed here, and the type of authority (whether open-ended or tied to a specific agreement) will depend on which party controls the House and Senate.
- Finally, at some point there will need to be a focus on reducing the $600 billion US trade deficit, perhaps by pushing markets such as China, Brazil and India to liberalize trade in services (where the United States has a trade surplus), or possibly by allowing the dollar to be part of a broader exchange-rate rebalancing mechanism (which would make US exports more competitive internationally).

[1] The National Export Initiative, launched in March 2010, proposes to double exports from $1.57 trillion in 2009 to $3.14 trillion in 2014, and create millions of jobs by promoting exports by US companies, particularly small and medium-sized businesses.

[2] Obama has said he is considering an FTA with Europe and will commit one way or the other in December, while Romney has openly called for one.

[3] Not least through the creation of the Interagency Trade Enforcement Center in February 2012.

A second Obama term

The Obama administration's record on international trade has been mixed. On the one hand, the president has pushed trade liberalization as a vehicle to create US jobs. On the other hand, except for concluding the Bush-initiated FTAs and promoting the TPP, Obama has not introduced any bilateral or multilateral FTAs of his own accord, nor has he pushed for TPA that would facilitate this.

Having acted relatively cautiously on international trade during his first term, President Obama might pursue a more aggressive trade policy in a second one. Given that this would be his last term, and that Vice President Joe Biden is unlikely to run for election in 2016, Obama might feel that he had more space to make a bold move on trade, pushing for FTAs with the EU and Japan at the expense of relations with traditional Democratic Party positions and supporters such as the unions.

Domestically, Obama is also likely to press forward in his effort to reorganize and consolidate six federal trade agencies into a single department to promote competitiveness, exports and American business.[4] Whether Congress, with its committees jealous of their prerogatives, will allow him to do this is another question. In his rhetoric, one should look for a continued discussion of trade in the context of the need to fix road, rail and port infrastructure; to improve the education system; and to increase innovation and entrepreneurship in order to help sell international trade to a sceptical public.

A Romney presidency

Given his background, Mitt Romney would be likely as president to prioritize economic and trade issues above most others in foreign policy. He would probably pursue an aggressive pro-trade agenda focused on expanding markets for US businesses and on confronting China and other countries whose trade and monetary policies have a negative impact on US businesses and consumers.

The biggest contrast with President Obama is that Romney, similarly to George W. Bush in his second term, would most likely negotiate more and larger bilateral FTAs, almost certainly at the expense of multilateral WTO negotiations. It is highly likely that many early Romney political appointees in this area would be drawn from the ranks of former Bush administration officials. In his campaign trade paper, Romney argues that bilateral FTAs are not only good for American workers but necessary to prevent America being eclipsed by other trading competitors.

While it has not received much attention, of particular interest is Romney's call to create a new trade zone, the 'Reagan Economic Zone' (REZ), among nations 'genuinely committed' to open-market principles, to resolving trade policy issues concerning the services sector, and to protecting intellectual property rights (IPR). It is too soon to tell whether or not this idea is merely campaign rhetoric, but if President Romney were able to create the REZ, it, along with TPP, would probably be considered an explicit rejection of the WTO process and would signal to international trading partners that the United States is adopting a unilateral, interests-based negotiating posture.

As the largest potential market for US goods and services, and as the largest creditor nation, China's influence on American trade policy cannot be understated. At least initially, Romney will take a tougher position on China than Obama has to date.[5]

Despite his desire to downsize government, and given the renewed emphasis he is likely to place on additional FTAs, Romney is likely to amend President Obama's trade reorganization plans by addressing the business community's desire to keep the Office of the US Trade Representative inside the Executive Office of the President instead of scrapping the reorganization plan altogether.

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[4] The six are: US Department of Commerce's core business and trade functions, the Small Business Administration, the Office of the US Trade Representative, the Export-Import Bank, the Overseas Private Investment Corporation and the US Trade and Development Agency.

[5] See Xenia Dormandy, 'US Election Note: China Policy after 2012' (Chatham House, May 2012) for more details.

Influencing externalities

The ability of either Romney or Obama to implement his desired trade policy depends on three principal factors:

- *The unemployment rate.* If this remains high in 2013 (above 8.5%), the president's ability to focus on trade will be limited, as domestic job creation, economic stimulus and/or deficit reduction measures would consume any available attention.
- *Congressional control*: As long as the presidency and Congress are split between the parties, both candidates would have to lower their objectives. Given their traditional positions, if Democrats control the Congress, progress is likely to be slower (although possibly less so under Obama, given political allegiances). This will particularly affect passage of the TPP and TPA (if requested). However, there is a chance that Obama could take a page from the Clinton presidency and use these issues as a way of working across the partisan divide (much as he did to secure passage of the Korea, Colombia and Panama FTAs in October 2011).
- *Macroeconomic factors*: The economic health of the eurozone, the state of trade with the EU (the United States' largest trading partner and largest source of foreign direct investment) and economic relations with China will be crucial. If the eurozone crisis continues, and the breakup of the EU becomes likely, the president will probably seek to hedge US businesses' European exposure by promoting trade with Asia, Latin America and Africa. If relations with China become problematic, the administration will have to work hard to find a way to secure specific commitments from them on trade issues beyond WTO tribunals or within the G20.

International implications

Other countries are not waiting for the United States to determine its trade policy for the next four years. With the apparent breakdown of the Doha Round, many have turned to bilateral and regional trade pacts to reduce trade barriers on a country-by-country basis. New trade patterns are emerging (e.g. China in Africa). Although the United States has had some success with Korea, Panama and Colombia, more – and much larger – trade agreements are being negotiated and signed by China, the EU and Japan. At the last count there were over 400 active trade bilateral trade negotiations worldwide, with countries looking to capitalize on growth in Africa, Latin America, and East and Southeast Asia. Both Obama and Romney are aware of this fact, but will address it in different ways, the former more multilaterally, the latter more bilaterally. Thus, in an Obama administration, the United States will put more pressure on partners to work through larger regimes such as the UN, the G8/G20, and the WTO, while a Romney administration will be inclined to push for more open markets bilaterally or through a US-dominated mechanism such as the REZ. However, given the problems that any administration will face in getting new agreements through Congress, it is unlikely that the United States will be able to be aggressive in this area.

The large US trade deficit has global implications, with a number of possible scenarios. If the next president wants to seriously address the deficit, there are relatively few realistic solutions in the short term that do not involve weakening the dollar to make US products more price-competitive internationally (with uncertain and most likely unwelcome consequences), or risking WTO sanction by closing US markets to some imported goods. Aggressive trade enforcement is one way to take action, however. Both candidates, in particular Romney, are likely to continue efforts to sanction unfair trade practices and increase resources to prosecute anti-dumping claims. Romney's tougher rhetoric on unfair trade practices could mean that other countries, particularly those with a more closed trade policy, could feel more of a pinch than under Obama.

Romney's proposed REZ would have a far-reaching international impact. His desire to create a multilateral trading regime to address policy issues around services and IPR is understandable given the myriad frustrations over the length and inconclusiveness of the Doha Round, but the

United States' trading partners are likely to point out that the WTO is the multilateral trading regime responsible for resolving trade policy issues. A special economic zone, created by the United States, to reward nations willing to 'abide by the rules' and punish 'cheaters' (Romney's words) could well draw criticism from developing nations with large markets that might chafe at being judged by the United States. Traditional trading partners of the United States which have invested a lot of time in the WTO process (such as the EU) might also be slow to embrace the concept. Finally, countries that have recently joined the WTO (e.g. Russia) would probably be reluctant to jettison an established protocol in favour of a new, less than global approach led by the United States. Many countries want to resolve services and IPR trade issues; far fewer would have the same enthusiasm with the United States at the helm.

A final key difference between the two candidates will be seen in the treatment of China. If Romney wins, he has said he will quickly adopt an aggressive stance on China's currency manipulation. Obama, in contrast, will look to multilateral arenas instead of direct action to press his case against China. However, as the largest holder of US debt, China has some negotiating leverage here and that may well be enough to temper either approach. An antagonistic China or a negative US–Chinese relationship could have significant implications for the global economy, and particularly that of countries in Asia.

ABOUT THE AUTHOR

Joe Hurd is a Vice President at UniversityNow, Inc. and a Senior Adviser with the Truman National Security Project, focusing on international trade issues. From 2009 to 2012, he served in the Commerce Department as the Senior Director, Export Promotion and Trade Policy, advising the Secretary of Commerce on the National Export Initiative. He also provided political leadership as the Senior Director of the interagency Trade Promotion Coordinating Committee and served as a member of the White House Business Council. Before entering public service, he served in senior business development and international sales/operations positions for AOL Time Warner, Friendster and VideoEgg. Earlier in his career, he practised corporate and securities law in London with Linklaters. He is a member of the Council on Foreign Relations, the New York bar, and a Solicitor of the Supreme Court of England and Wales. He has been quoted in the *Wall Street Journal*, *International Herald Tribune*, *San Jose Mercury News*, *Straits Times*, *Guardian* and other publications worldwide on entrepreneurship, online advertising and social media.

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