A New Administration, a New Trade Policy

by Dan McCue
April 2, 2010

Exports get a major boost under Obama's plan, while pending FTAs remain surrounded by controversy.

A year into Barack Obama's presidency, many in the trade community had begun to wonder whether the Administration would ever pause to catch its breath long enough to stake out a clear philosophy on foreign trade.

Nearly everyone acknowledged the president's plate had been full in his first year, what with two wars, a health care overhaul, and climate change dominating his attention, but as the long winter stretched into spring, there are signs the industry—hard hit by the lingering recession—had grown restive.

Particularly irksome to free traders was the status of pending free trade agreements (FTAs). Currently, the U.S. has 17 bilateral FTAs in place, and another 15 that are still at various stages on the drawing board, but three—deals with Colombia, South Korea, and Panama—have languished for years.

"Columbia's FTA has been pending since 2006, South Korea's since 2007, and Panama's since 2008, and we still don't know what's to become of them," said Robert West, principal for trade and transportation with Cambridge, Massachusetts-based Halcrow Inc., at a recent gathering hosted by the American Association of Port Authorities (AAPA). "Each of these has been 'approved,' but not 'ratified,'" he said.

West pointed out that Colombia "is a huge market" with a strong middle class and a stable government. Panama, he said, is a rich nation with a service-based economy, while South Korea, even without the FTA in place, is already the U.S.' seventh-largest trading partner.

"In general, our export growth is faster after a free trade agreement is in place. It pays. The benefits of FTAs are clear. But we just need to move on these," West said. "At this point, we're all still waiting for Obama to say, 'This is my trade policy,'" West added.

As it turns out, that policy was hiding in plain sight all along.

Getting U.S. exports off the ground

On March 1—the statutory deadline—President Obama delivered a trade policy agenda to Congress that sounded like nothing so much as the candidate Obama once encountered on the hustings in 2008.

The agenda, which was prepared by the Office of the U.S. Trade Representative, and bears the subtitle, "Making Trade Work for America's Working Families," aims to double U.S. exports within five years and create two million jobs in the process.

The effort has been dubbed the National Export Initiative, and achieving its goals – broadly defined by the White House as a "robust role in the global trading system"—will fall to a newly created "export promotion cabinet." Its job will be to oversee a cache of new and existing programs and finance facilities to help small- and medium-sized firms find new market opportunities overseas, while also pushing for a reduction of trade barriers and tougher enforcement of international trade laws.

The plan also proposes a 20 percent increase in funding for the International Trade Administration, a move that will raise its annual budget to about $54 million, and enable it to hire more than 300 new trade specialists, most of whom will be stationed in foreign countries.

According to the Obama administration, businesses engaged in trade usually grow faster, hire more, and on average pay better wages than those that do not. "In recent years, exports of manufactured goods have become an important source of employment supporting almost one in five of all manufacturing jobs," the analysis claims.

It cites a U.S. Commerce Department estimate that over 10 million jobs were supported by exports in 2008, and the administration believes this is proof positive that exports will bring broader benefits for the economic recovery.

During the last six months of 2009, the economy expanded at a rate of 4 percent on an annualized basis, the analysis added, with U.S. exports contributing nearly two percentage points to this growth rate. The report also holds that trade is the lifeblood of many American farms and ranches. Compared to the general economy, U.S. agriculture is twice as reliant on overseas markets. Agricultural exports of wheat, rice, corn, fruits, vegetables and animal products are responsible for 800,000 jobs, it said.

To improve prosperity, "we must match other countries in seeking new international markets aggressively," the administration stated, adding that 95 percent of the world's customers and almost 80 percent of its economic production are already outside U.S. borders.

The analysis goes on to reiterate that the United States wishes to partner "with the developing countries of the world," and vows, in the process, "to make trade policy more reflective of American values—including the fundamental rights of workers—and to political transparency in trade policy."

"If America sits on the sidelines while other nations sign trade deals, we will lose the chance to create jobs on our shores," the president asserted during his State of the Union address in January.

The trade community responds

Carol J. Guthrie, Assistant U.S. Trade Representative for Public and Media Affairs, described the overall theme of the trade policy as one of more "funding, focus, and coordination."

"For the first time in government, trade will receive the focused attention of the president and the cabinet," she said.

"It's taken a long time," confirmed Pat Mears, director of international commercial affairs for the National Association of Manufacturers.

Mears said that while the U.S. is still the most productive manufacturing nation in the world, it is dead last among what she described as "the 16 major export nations" in terms of the percentage of production sold to foreign markets. "Clearly, as the president said, we have to get on our game, but I think to do that we're really going to have to change the culture," Mears said. "While many companies have been aggressive in finding markets abroad, I think there's still this feeling that we're a large, continental economy, and as a result the best place to seek opportunities is within our own borders.

"By contrast, look at Europe, where because of relative size of their home countries, businesses seem to have exports and exporting in their DNA," she continued. "To compete successfully with such an ingrained philosophy, we need the administration to provide the leadership and continue driving the export message home."

Jonathan Huneke, vice president of public affairs for the U.S. Council for International Business, which represents large multinationals, the kinds of global companies that populate the Fortune 500, said his membership was generally pleased by the Obama plan.

"The companies we serve do importing, exporting, and have extensive investments overseas, and speaking generally, I think they see this as something that's good for the economy," he said.

One thing the U.S. Council for International Business is particularly pleased with is the agenda's emphasis on strengthening the multilateral trading system and the completion of the Doha round of World Trade Organization (WTO) trade negotiations. Launched in 2001, Doha has been stalled for years.

But that's not to suggest the trade policy had universal appeal—even such apple pie-sounding proposals as having federal officials provide "robust" advocacy for American firms, as much as $6 billion for trade-related financing, and additional policies designed to stimulate innovative technologies, has some observers wary.

For instance Huneke, who praised Obama's multilateralism, also worried that some of the president's rhetoric smacked of mercantilism, the economic theory that held sway in Europe between the 15th and 18th centuries and which was based on a premise of encouraging export while tamping down on imports through the use of tariffs and subsides.

Speaking at Suntory Hall in Tokyo, Japan in November, the president said trade, and an effective, coordinated trade policy among the world's major economies, is key to rebalancing the world economy and avoiding the "boom and bust cycle."

"One of the important lessons this recession has taught us is the limits of dependence, primarily on American consumers and Asian exports, to drive growth," Obama said.

At the same time, Huneke is also concerned that the big, new emphasis on expanding U.S. exports might rub long-time trading partners the wrong way.

"What's worrisome is that there has been no recognition of the two-way nature of trade," he said. "It's sort of 'export good, import bad' and that's mercantilism pure and simple. Now, of course, everyone understands there's a certain amount of public posturing and public rhetoric that goes on, but this is something our member companies have expressed some concern about."

U.S. relations with China still key

Against that backdrop, perhaps no trade relationship looms larger—and appears more challenging—than that between the U.S. and China. China is the third-largest export market for the U.S. and has been the fastest-growing one for years. In 2009, U.S. exports to China reached $77.4 billion, effectively driving down the U.S.-China trade deficit by 16 percent. But, fissures in the relationship are commonplace.

In fact, that very topic was the subject of an exchange between then-candidate Obama and this reporter during a 2008 campaign stop at Claflin University in Orangeburg, South Carolina. Responding to the suggestion by U.S. Senator Lindsey Graham of South Carolina and others that China needed to be encouraged to a more equitable trading partner, Obama seemed to agree.

"China has no right to game the system," Obama said at the time. "We must do more to get China to play by the rules we play by. They must stop manipulating their currency, and they must adhere to basic labor and environmental practices."

As it turns out, 2009 was a time of routine conflict with China over everything from a "harmful surge of Chinese imports into the U.S." to "winning distribution rights for American content companies." The U.S. also filed suit against China in 2009 over export quotas and duties on raw materials needed by core U.S. industrial sectors ranging "from steel and aluminum to chemicals."

If anything, the bilateral relationship grew more strained in January after U.S. Commerce Secretary Gary Locke accused China of protecting domestic firms and creating barriers for foreign investment. A day before Locke's comments, the U.S. set preliminary antidumping duties ranging from 90 percent to 175 percent on electric blankets from China. (Other antidumping investigations and anti-subsidies probes against China have focused on iron, steel, paper, oil pipe, and metal wire.)

Then came a further spike in tensions between the two powers over the alleged hacking of Google's computers by Chinese hackers, and the U.S. sale of $6.3 billion in arms to Taiwan, a move that prompted a vow from Beijing to retaliate against U.S. companies, like Boeing, who manufactured them.

According to Pat Mears, the up and down nature of U.S-China relations is something companies involved in trade in Southeast Asia are just going to have to deal with.

"Frankly, I think this is simply the way this relationship is going to be," Mears said. "In part, that's a result of the economic downturn. While the rest of the world suffered and the U.S. economic model, a model based on credit, unwound, they did fairly well by comparison.

“As a result, there’s a feeling in China that ‘this is our moment’ and ‘we are the resurgent superpower.’ That comes with a lot of complications for them and anyone dealing with them,” she added.

Mears believes the trade relationship with China and Chinese companies is also complicated by a generational division within the government. The “internationalists” and global thinkers are all relatively youthful, while those who focus on domestic issues are Communist party stalwarts who cut their teeth during China’s Cultural Revolution and don’t want to experience its pain again.

“That’s why they’re still slow to open their internal markets,” she said. “While the recession did hit them on exports, they’re nonetheless reticent to pursue currency appreciation and are doing everything they can to protect their domestic industries.”

In Mears’ estimation, the political pressure points are not going to go away. “This is going to be a relationship that [the administration] is going to have to manage and manage wisely,” she said. “That doesn’t mean we’re not going to have our spats. In fact, it’s certain we will.”

What that means to companies engaged in international trade depends on where they stand in terms of their China exposure.

“If you’re invested in China or sell to China, you want to see a pretty smooth relationship there—especially given China’s history of retaliating against businesses in response to actions taken by the government,” Mears said. “So there are legitimate concerns to watch and monitor.

“On the other hand, there are still plenty of companies in the U.S. that have been hurt by China, don’t see how they will benefit from an improved relationship, and say we need to be tough with them at every opportunity.”

Steven Weber, director of the Institute of International Studies at UC Berkeley, believes that while the currency dispute between the U.S. and China fell somewhat under the radar during the global financial crisis, it very well could re-emerge as a significant issue in the 2010 mid-term elections.

“The strain between the U.S. and China hasn’t gone away, and the currency disalignment has gotten worse, not better,” he said.

Weber predicts that if the economy doesn’t rebound as quickly as is hoped by this summer, incumbents, and particularly Democrats, might seek to demonize China and “outsource the blame.”

“The simple version of the story is that the Chinese saved excessively on a devalued currency, essentially subsidizing the U.S. Treasury by buying our dollars,” he said. “This subsidy created the interest rate bubble, which created the housing bubble, which in turn encouraged U.S. consumers to buy more goods manufactured in Chinese factories.”

“In essence, they gave us the crack, we were the addicts,” Weber said.

The professor admits he had similar concerns during the 2008 election and the issue never materialized. However, if U.S. unemployment remains above 10 percent, he thinks there’s a very, very good chance it could happen this time.

“As a result, it could very well be that this year turns out to be a tentative and scary time for making bets on U.S.-China trade,” Weber said.

Pending U.S. free trade agreements

Perhaps there’s no area that on its face appears more difficult than securing ratification of the free trade agreements with Colombia, Panama, and South Korea.

First, the administration has to iron out differences with the participating countries—a priority of the U.S. Trade Representative's office. Then, they'll have to get the deals ratified by Congress.

Robert E. Scott of the Economic Policy Institute, a nonprofit, nonpartisan think tank based in Washington, South Carolina, said there are several problems with the FTAs, not the least of which are employment consequences.

Scott, an economist who built his reputation on detailing the U.S. job losses he says stem from globalization, projects the U.S. could lose between 400,000 to 500,000 jobs over the next five years if the deals go through. And, he said, each of the pending FTAs comes rife with its own problems.

"In Panama, the issues revolve around its being a safe haven for money laundering and around the legal issues surrounding certain seedy individuals in position of authority," Scott said.

"But if anything, those are simple problems to address compared to Colombia or Korea," he said. "In Colombia, you've got a trade partner with a history of just vicious, unheard of abuses of labor rights. Anyone that tries to organize a union gets threatened or killed, and the president and members of his political party have been tied to those activities. Basically, we have no business doing business with a country like that.

"With Korea, the big problem is the automotive sector," Scott continued. "The agreement phases out hefty tariffs on light truck imports, tariffs I would argue are the only reason we still have an auto industry here, and a big reason why we have so much transplant production by foreign automakers.

"The reason this is so dangerous is that the Koreans are hypercompetitive in the automotive sector and would be poised to clean house," he added. "It threatens to take out the one leg upon which our auto industry is still standing."

But, the National Association of Manufacturers' Mears held a decidedly different view.

"We are strongly supportive of these free trade agreements getting through Congress, and the reason why is while the U.S. has a massive trade deficit overall, it actually has a trade surplus with the countries with which we have these agreements," she said.

"That said, one of our real concerns now is that others are getting ahead of us in terms of trade relationships with these countries," Mears said.

"For instance, Canada just signed a free trade agreement with Colombia—a nation that's currently our eleventh-largest trading partner—and once Colombian buyers establish string relationships with Canada, it won't be easy to flip the switch and gain an advantage.

"As for Korea, they've just signed an FTA with the European Union that will be implemented this summer and which we feel will clean our clock in the absence of ratification of our agreement," she said.

Mears takes issue with critics of free trade agreements, stating that while it's often said the U.S. lost five million manufacturing jobs since the ratification of NAFTA in the mid-1990s, "a lot of teenagers got acne during the same period.

"It's simply inaccurate to draw a direct correlation," she said. "In fact, we contend that manufacturing jobs grew for seven years after NAFTA passed, and what we've seen in terms of job declines is actually a result of how rapidly productivity has increased in this country. We're simply making more with fewer people."

Mears said she believes the administration "gets" the connection between free trade and job growth, but also understands that "there is a lot of pressure from some of the president's constituents who are opposed to free trade under any guise."

"Colombia isn't perfect," she said, conceding some of Scott's point, "but the number of labor people killed in Colombia last year was really small, and there's no proof that the government was behind those killings. In fact, domestic violence and other causes are just as likely." wt

Contributing writer Dan McCue lives in Charleston, SC, where he writes on global trade, foreign direct investment, and port-related issues.

Sidebar: Boeing's Take on the U.S. Trade Policy, by Dan McCue

As one of America's leading exporters of manufactured goods, Boeing wasn't looking for a newly articulated U.S. trade policy to give it a bump in sales, but the aerospace giant nonetheless followed the roll-out of the Obama plan with interest, the spokesman for its Commercial Airplane division said.

"Boeing has a strong interest in the expansion of rules-based, global trade through multilateral and bilateral agreements that eliminate barriers to trade," Tim D. Neale told WT100. "Simply put, with fewer trade barriers, the global economy becomes more efficient and grows faster than it would otherwise, and with that growth the demand for air transportation services increases, which is good for our business.

"So, Boeing is encouraged to see the administration committed to expanding trade through new agreements," he said. "We're also encouraged to see their emphasis on ensuring that all nations abide by the agreements they sign so there is fair play in global markets. Rules, and enforcement of rules, are essential to maintaining public confidence in the trading system."

Neale was also encouraged by the president's commitment to fight for a reduction of both tariffs and government subsidies and quotas, the non-regulatory barriers that often stymie U.S. businesses' easy access to world markets.

Such a commitment, he said, is "needed to grow global trade and make trade as smooth and efficient as possible.

"It's also important, though, that the end product of trade agreements is fair to all parties, and that all parties abide by the agreements they sign," Neale continued. "If not, public support for trade will wane, and protectionist sentiments will grow.

"Recognizing that trade can displace workers in some fields, it's important as well that governments have policies in place that help workers re-train and re-locate so they can move into fields where workers are needed," he added.

Boeing sells most of its commercial aircraft to companies outside the United States. Currently, about 90 percent of its commercial airplane backlog—including some 876 787-Dreamliners, the world's first passenger liner made largely of composite materials—is with airlines in other countries, plus leasing companies that do business globally.

Given its client list—a list that includes Air China, Air Berlin, AeroMexico, All Nippon Airways, Azerbaijan Airlines, Kenya Airways, and Qantas, to name just a view—there are obviously only a few barriers to Boeing sales and deliveries of commercial airplanes around the world.

"[But] Boeing has a macro view of trade," Neale said. "Our business will grow as the world economy grows, and more liberal trade regimes can help spur global economic growth."