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TRADE POLICY'S TWO-WAY STREET: A POLITICAL WAKE-UP CALL

The immediate fallout from the mid-term elections goes beyond the historic shift in approval by the populace that, in a parliamentary system, would have resulted in a no-confidence vote and the departure of President Obama. But the United States does not run on a parliamentary system and President Obama has another two years to serve. All concerned are left to pick up the pieces and plan the next two years' governing process. As of this writing—one week after the November elections—the Obama Administration is paying more attention to international trade policy, and specifically export promotion, than at any previous point.

Unemployment and Loss of Manufacturing Base

The past three years really have been all about the economy. After all, candidate Obama gained separation from the McCain effort only with the mid-September 2008 collapse of the economy and the bankruptcy of Lehman. Apart from the national unemployment levels being stuck at or about 9.7% (actually far higher if the numbers of those who have given up looking or are underemployed are counted), another statistic that has not gotten much play has been the continued gutting of the U.S. industrial base. The September 2010 data showed only 11.7 million jobs in manufacturing. This reflects a loss of millions of jobs. Indeed, the last time that the United States had fewer than 12 million manufacturing jobs was in 1941, when the country had a population of approximately 132 million people.[1]

The tremendous increase in manufacturing productivity alone cannot account for that shrinkage, as one can see in Bridgeport or Waterbury Connecticut, or any other of dozens of deeply troubled cities where the manufacturing base was cleared out decades ago.

Exports as Engine for Growth

The Obama Administration now sees that one way out of the morass is to export things made or grown in the United States. The evidence is clear. Start with the op-ed piece in the *New York Times* by President Obama himself on the salutary benefits of exports as an engine for growth and recovery.[2] Then refer to the *Times* editorial two days later, calling for a renewed vigor in pressing forward on the stalled free-trade agreements (FTAs) with Colombia, Panama, and South Korea.[3]

Export Promotion

Sober analysis should conclude that no number of public-sector or service jobs will make or grow the things that the U.S. needs to export. Instead, policy initiatives are needed to boost private-sector manufacturing and agriculture and their exports. Trade policy, including a renewed commitment to the FTAs about which the *Times* wrote, is one way forward.

All three pending FTAs have been stalled by congressional fiat, with the Pelosi/Reid-led Congress having prevented even a vote on the merits of the Colombia and Panama deals. Now is the time for the South Korea FTA to be renegotiated and for the other FTAs to move forward. Congress should not be the place where good ideas on trade come to die.

Bipartisan Support

Some would respond that it is high time indeed for this new-found interest, and would observe that the Republicans have been ready to confer with the Obama Administration. Better late than never (apologies to George Bernard Shaw). The irony is that trade

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and national security are two areas where the Republicans are often ready to make common ground. Review the history of NAFTA, which the first Bush Administration introduced and President Clinton passed with strong Republican support. In truth, the wars in Afghanistan and Iraq and trade policy are two subjects that are ripe over the next two years for the bipartisanship that Americans so clearly demand.

National Security

Free trade matters in the U.S., and never more so than to further cement relations with and among its strategic partners. A thoughtful response to U.S. national security perils posed by such unpredictable regimes as North Korea, Venezuela, or Iran would be to do everything possible to strengthen U.S. partners and partnerships. Bilateral trade and investment ties are particularly effective to accomplish this.

U.S. Manufacturers Are the Losers When FTAs Are Stalled

As the *New York Times* recently noted, and as Mary Anastasia O'Grady has long argued in her weekly column on the Americas in the *Wall Street Journal*, when potential FTAs are stalled, the big losers are U.S. companies. These are the potential exporters to Colombia and Panama, the very companies that President Obama is cheering on to increase their exports as the engines for growth. One reason why Boeing has been so successful as an exporter is that trade in civil aircraft has benefited from free trade for the past 30 years. It is time for U.S. companies in other manufacturing sectors to benefit from comparable free-trade initiatives.

The impact on U.S. exporters from a stalled FTA is especially ironic for those emerging markets with potential FTAs. Take Colombia and Panama, where the vast majority of products are already eligible for duty-free entry into the United States under tariff preference programs.[4] Customs authorities in Colombia levy duties on exports by such U.S.-based multinationals as Caterpillar and Deere, each of which earns significant shares of its income from its overseas sales.

The problem is that the playing field in these export markets is not level when the potential FTA partner has extended free-trade benefits to competitors of the United States. Colombia has signed FTAs with the EU and Canada. That means that exports of heavy construction equipment from Canada and Europe get into Colombia duty free, and thus enjoy an advantage over Caterpillar and Deere. Korea, too, has its own FTA with the EU.

This is a case of doing well while doing good. Quite apart from any economic self-interest, Colombia is as deserving of an FTA as Chile or Peru. Colombia is the staunchest U.S. ally in the Southern Hemisphere, and its loyalty remained steadfast in the face of continued abuse by the Chavez regime in Venezuela when it agreed to host an enhanced U.S. military presence. Going well beyond these merits, however, U.S. companies' export efforts are being hurt when Congress follows its own playbook, which is scripted to deny FTA privileges because of a fear that the very permanence of the FTA status (unlike the tariff preference programs that must be renewed periodically) will support outward investment by U.S. companies and lead to more companies setting up manufacturing facilities in foreign countries. But this approach, which meets certain partisan domestic political goals, is a prescription for target practice on one's own pedal extremity.

While the United States dithers, as noted, the EU and Korea have entered into their own FTA, Colombia has signed its own trade deals, and all the while Brazil is taking little effort to conceal its own design to supplant the United States as the dominant force in South America. Sometimes it

Shipping containers lie on the dock after being exported to the U.S.
Lucy Nicholson / REUTERS

just does not make sense to cede pride of place on national security and foreign policy matters to organized labor or other constituencies that have never met a tariff preference or an FTA that they like. A fair deal on these FTAs, with guaranteed market access for U.S. companies,[5] should be vigorously pursued.

Fair Dealing Under NAFTA

It is just as important to comment on one of the other FTAs, the administration of which has been a political football—NAFTA, and the recent decision by Mexico to impose retaliatory duties on a range of U.S. products. This is in response to the March 2009 U.S. decision to eliminate a pilot program on the access of Mexican long-haul trucks to the United States under NAFTA.

Most observers are unaware that NAFTA covers open access to services and investments as well as to goods. One service sector that was included within NAFTA was land transportation services, specifically transportation by truck and bus. The Teamsters have never ceased fighting NAFTA and, perhaps as a result of their efforts, the United States dragged its feet in

1 The irony that 200,000 manufacturing jobs were unfilled at the same time, and that this number is expected to swell to three million unfilled manufacturing jobs in the coming years, is a topic for another forum and another day.

2 "Exporting Our Way to Stability," N.Y. Times, November 6, 2010, page A23.

3 "Korea Is a Start," N.Y. Times, November 8, 2010, page A24.

4 Tariff preference programs are unilateral statutory programs as a result of which qualifying products from participating beneficiary countries are entitled to reduced-duty or duty-free access to the United States. For Panama, most of its goods come into the United States through the Generalized System of Preferences (GSP) and the Caribbean Basin Economic Recovery Act (CBERA) programs. Colombian goods are eligible for duty-free access under GSP and the Andean Trade Preference Act (ATPA).

5 The proposed FTA with Korea has raised criticism that it is not reciprocal enough, e.g., with severe restrictions on U.S. access to the Korean market for motor vehicles, beef, and household appliances.

6 See "Trucking Industry Stakeholders React to Mexico's Decision to Increase Tariff List," www.thertucker.com/News/Stories/2010/8/17.

7 See Dreazen and Pasztor, "Plan Would Revamp Export Controls," Wall St. J., April 21, 2010 (online edition).

meeting its NAFTA obligations. Mexico challenged the United States under NAFTA protocols for disputes between the signatories.

As a means of resolving their dispute, the United States agreed to implement a pilot program to ascertain whether Mexican trucks were safe or, as alleged by the Teamsters and others in the United States, posed health and safety risks. The government spending bill that President Obama signed in March 2009 contained a clause inserted by outgoing Senator Dorgan (D-ND) that killed the pilot program despite a February 2009 study showing that in many instances the Mexican trucks were safer than their U.S. counterparts. Critics of the pilot program noted that the study had included a caveat that the number of vehicles studied was too small to be conclusive.

Mexico had threatened to retaliate if the program was ended but, despite this clear signal, Senator Dorgan called the Mexican reprisal "an outrage." For their part, and despite any affirmative showing that the Mexican trucks are unsafe, the Teamsters still defend the move as a safety issue, and trucking industry officials refer to Mexico's "bullying tactics."[6] Despite promises from the Obama Administration that an accommodation would be reached, there has been no solution as of this writing. Instead, the Mexican government has followed through with retaliatory duties.

With a revision in August 2010, the list of U.S. products slapped with duties now includes 99 products across a wide swath of sectors, more than half of them agricultural commodities such as apples and other fruits (20% duties) and potatoes (5% duty); and other manufactured items including sunglasses (5% duty) and washing machines (20% duty). The estimate of total lost U.S. export sales reaches some $2.6 billion, with perhaps as many as 25,600 jobs lost.

This illustrates three key features of international trade matters. First, in retaliation for unfair or unjustified trade actions, the aggrieved party must take action that is commensurate on a macroeconomic basis with the com- plained of trade action. The retaliation is not in the same sector and, in fact, there is usually no connection with the sector or product originally affected. Thus, the U.S. im-posed 25% duties on trucks in response to the EU restrictions of frozen chickens. Here, U.S. growers and manufacturers are the ones whose exports are being assessed these duties. These "entirely innocent" U.S. companies are losing sales to their Canadian counterparts, as well as to producers in those other countries with FTA duty-free access to the Mexican market. Countries that have an opportunity to retaliate, such as Mexico, often select targets with great care, picking products for maximum political effect in the country of exportation.

Second, the "guilty" party in an international trade dispute has a clear, rational choice. That country, in this instance, the United States, could either cease the unsanctioned activity or keep doing what it has been doing and face the consequences, which include imposition of those retaliatory duties. But that can lead to political pressures, such as Washington state growers of potatoes and apples complaining to their congressional delegation.

Before going further, a review of the salient facts: (1) the U.S. committed in NAFTA to allow Mexican truck access to the U.S. market; (2) the U.S. and Mexico agreed on a pilot program to test safety as a way to resolve the dispute; (3) the pilot program ended before the safety issue was resolved, but preliminary data showed that the MX trucks are safe; and (4) Mexico exercised its rights and retaliated against selected U.S. exports. These facts establish the third point—this is how the system works. Simply put, the United States is at fault here. It is neither justified nor appropriate to resort to name-calling.

As with the pending FTAs, where the potential partners are important allies of the United States, the nation has interests that extend far beyond the already significant economic impact noted. With Mexico exploding in horrific violence, one would think that the United States would be doing absolutely everything in its power to help stabilize the country. Such a consideration, with its national security as well as social justice implications, dwarfs the narrow interests of those who have apparently failed to bring any credible evidence that would sustain the premature ending of that pilot program.

Other Measures

Without elaborating, other changes must take place before the U.S. government can follow the George Steinbrenner school of management: lead, follow, or get out of the way. The administrative game of "red light, green light" has to end. The United States must push forward on the Gates proposal[7] to revise the export control laws and regulations to ensure that U.S. manufacturers are not overly restricted. The United States must also revise the administration of its immigration laws, so that potential business partners or customers do not have to wait 50 days or more for visas.

Conclusion

Before President Obama looks to further expand exports, he must confront these issues. Ironies abound, none greater than that his biggest ally in these efforts to go back to the future by making and growing things is probably the Republicans who are committed to denying him a second term. ●