



Trade Headwinds Under Obama

by Greg Rushford



FOR ASIANS WHO worried about the disconcerting protectionist rhetoric that Barack Obama used on the 2008 campaign trail, the incoming U.S. president's early appointments were a reassuring sign that he wants to govern from the center. Mr. Obama tapped Ron Kirk as his chief trade negotiator rather than Rep. Xavier Becarra, a California "fair trade" Democrat who has tended to run with anti-globalist lobbyists in opposing freer trade. Mr. Kirk is a Dallas corporate lawyer and a former mayor of that city who has supported trade expansion. In the White House, the experienced Larry Summers, who embraced globalization as U.S. Treasury secretary under Bill Clinton, will watch over a team from the economic mainstream that includes the respected New York Fed chief Tim Geithner, who will move to Treasury. President Obama will also be seeking the advice of such senior economic statesmen as Paul Volcker, the former Federal Reserve chairman who successfully curbed rising inflation under President Ronald Reagan in the 1980s.

However, a closer look at where Mr. Obama and his trade team are coming from suggests that the initial warm-and-fuzzy perceptions that America's borders will remain open to trade could well turn out to be misplaced. To get himself elected, the new American president racked up more protectionist IOUs during the campaign than any of his recent predecessors. One way or the other, the usual suspects when it comes to U.S. protectionist lobbies—textiles, steel, autos, and agriculture—stand to get something in payback. Mr. Obama has expressed little interest in bringing the World Trade Organization's Doha Round to a successful conclusion.

And if the good news is that the Obama administration will try to govern from the center, the bad news remains that, where trade policy is concerned, the center has collapsed. Washington, D.C. has become the fair-trade capital of the world. Don't just blame the Democrats and their allies in the unions. Even the pro-trade Business Roundtable, the Washington business-lob-

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by equivalent to Japan's Keidenren, has now dropped support for completing the WTO Doha Round as a declared priority. Corporate America wants more preferential trade deals with selected (junior) US trading partners who are willing to give concessions to do business with the Fortune 500.

And the recent glowing press reports mostly miss the fact that the perceived Obama free trade team has players who know how to play protectionist politics when it suits their interests. Few remember that during Mr. Kirk's unsuccessful bid for a U.S. Senate seat in 2002, he ran as a protectionist who would not support "fast track" trade negotiating authority for President George W. Bush.

Nobody is even talking about Mr. Obama's new agriculture secretary, former Iowa Governor Tom Vilsak. Mr. Vilsak will be an important trade-policy player because he will preside over the U.S. farm program with its lavish subsidies that distort global markets. When in office earlier this decade, Mr. Vilsak stood for those lavish subsidies, and against opening state procurement bidding opportunities to foreign bidders—the reverse of what federal trade officials in Washington were then asking trade partners from Tokyo, Singapore and Canberra to do.

The U.S. farm program was justified by then President Richard Nixon as necessary to combat (unconscionable) European farm subsidies—a stance that has since been adopted by every American president for the last four decades. During the 2008 campaign, Mr. Obama repeatedly praised the welfare subsidies for farmers as good things for the American way of life.

While most textile quotas are history, the traditional high U.S. tariffs that restrain clothing exports even from some of the world's poorest countries like Bangladesh and Cambodia remained intact. President George W. Bush didn't much like

them, but never felt politically strong enough to call for their elimination. During last year's race, the Obama camp refused to take questions on the subject. The candidate of change was busy telling southern audiences what they wanted to hear.

Trolling for votes in the textile state of North Carolina, Mr. Obama wrote a letter to Cass Johnson, the president of the National Council of Textile Organizations, which essentially promised that an Obama administration would adopt the textile lobby's priorities as its own. "China must change its policies, including its foreign exchange policies, so that it relies less on exports and more on domestic demand for its growth," Mr. Obama wrote. "When safeguards on textile imports from China expired in 2004, imports surged and thousands of jobs were lost," the candidate added. He also expressed support for calls in the Democratic-controlled U.S. Congress to "monitor" Chinese clothing imports with an eye to gathering evidence to roll them back.

Mr. Obama's Oct. 24, 2008 letter also promised that his administration would make it "a priority" to beef up the office of the U.S. trade representative to pursue "strong enforcement of our trade remedy laws at home and of our trade rights abroad." He further expressed strong support for continuing current U.S. law that requires that the Pentagon "procure only textiles made in the United States." The Democratic candidate also pledged support for the so-called "yarn-forward rule" in U.S. trade agreements that gives America's trading partners duty concessions for clothing they export—but only if those countries buy their fabric from US suppliers (instead of countries like China). It's obviously terrible economics, but the politics work. Mr. Obama carried North Carolina on Nov. 4.

Unite Here, the first labor union to endorse Mr. Obama, knocked on more than

350,000 doors to elect a president who would be sympathetic to the textile lobby in the White House. Unite's top priority for the new president: Do something about "predatory imports" of clothing made in China. The United Steelworkers of America had more than 500 people working full-time in 31 states on behalf of the Democratic candidate. More than 11,000 steelworkers volunteered, calling and speaking to more than 100,000 union members, mailing nearly five million pieces of campaign literature. "When you feel the brunt of the downturn in the economy and wake up wondering if your job is being shipped overseas or whether you can still afford health care, you work like hell for change," said USW President Leo Gerard greeting the electoral victory. Mr. Gerard may not have picked Ron Kirk as U.S. trade representative, but he and his allies in the AFLCIO will likely have a big say in placing key staffers in positions that have an impact on policies.

Perhaps the strangest aspect of the American trade-policy scene involves the disconnect between the political pages of American newspapers and what's actually happening in the economy as reported in the business pages. Even parts of the traditionally insular American south have begun to prosper to the extent that they have embraced globalization.

For decades, if there was a heart and soul of American protectionism it was Spartanburg, South Carolina. For the last half century, textile magnate Roger Milliken, a true economic nationalist, vowed that his Milliken & Co. would never move offshore to find export platforms for Americans. Yet these days, Mr. Milliken's company makes fabric for tennis balls in the United Kingdom, and exports it to Chi-

na, where multinationals like Wilson Sporting Goods (based in Mr. Obama's Chicago, but European-owned) manufacture the balls for export to America.

And while Democratic presidential candidates railed against the loss of jobs to China before their party's Jan. 26, 2008 South Carolina primary, the local business pages were reporting that a Chinese-backed company named American

Yuncheng Plate Making was planning to invest \$10 million over the next five years to make packaging materials and engraving cylinders to make textiles. American Yuncheng spokeswoman Irene Quiao "said the company

chose South Carolina because of its low tax rates and access to key markets," reported the Greenville News. The Chinese-backed plant in Spartanburg was looking to create at least 120 new jobs.

Also in Spartanburg, an entrepreneurial-minded local maker of specialty beers called RJ Rockers Brewing Co. is busy carrying out major expansion plans up and down the east coast, from Maryland to Florida. "In March [2009] the company should be receiving new equipment from China that will nearly quadruple its annual production capacity," the Spartanburg Herald Journal has reported. Nobody complained that the Chinese equipment would enhance American productivity.

And just north, in the same North Carolina where candidate Obama pandered to fears of competing in global markets, change has been coming. On July 31, 2008, Unifi, Inc., a stalwart of the textile lobby, announced from its Greensboro headquarters that it was creating a subsidiary in Suzhou, China called the Unifi Textiles Suzhou Co., Ltd. The joint venture will manufacture "value-added" yarns in Chi-

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na. While the politics in the Carolinas may remain backward looking, economic realities are moving ahead.

Of course, when America's newest trade cop looks around for a good locale for America's next trade war, Mr. Kirk will find a target-rich environment in Asia. Consider Indonesia—the same Indonesia where Mr. Obama lived for four years as a child, the same Indonesia where millions rejoiced at his accession to the Oval Office. If the incoming trade representative has not yet been briefed on something called Indonesia's "negative list," that day is soon coming.

The negative list refers to major sectors of the Indonesian economy that are closed to foreigners: think air express services, hospitals, telecommunications and dozens more. "The negative list is as long as a football field," Myron Brilliant, the U.S. Chamber of Commerce's vice president for Asia told reporters shortly before Christmas. When Mr. Kirk weighs in, he will have the support of a long list of major American corporations like Federal Express that are frustrated with Indonesia's protectionism. Indonesians who danced in the streets of Jakarta last Nov. 4 will likely learn that when Mr. Obama said during the campaign that "if you want access to our markets, you're gonna have to open up yours," he wasn't just talking about China.

But while some laggard Asian countries might deserve the pressure to open up, the unfortunate fact remains that year-

in, year-out, Washington trade officials are guilty of the old double standard. For Mr. Obama, as for his predecessors, that means ardent defense of America's worst protectionist trade rackets: textiles, sugar, cotton, steel, autos, shipping, and dozens of uncompetitive industries that will be seeking to hit foreigners with stiff anti-dumping tariffs. The draconian U.S. anti-dumping bureaucracy in the Commerce Department that inflicts punitive duties on allegedly "unfairly" low-priced foreign products essentially runs on political autopilot, regardless of whether the Republicans or the Democrats control the White House. The chance that America under President Obama will change course and emulate Hong Kong, Australia, and New Zealand by lowering its entrenched trade barriers unilaterally is zero.

Perhaps the most unfortunate thing about trade politics as usual in Washington is the timing. Considering the still-developing global recession, these are hardly the times for the new president of the United States to play the same trade games as his predecessors. On Nov. 5, 2008, just one day after Mr. Obama's landslide victory, the World Trade Organization issued a report pointing to the dangers associated with shrinking global trade flows, and the inevitable protectionist pressures around the world that have already begun to pop up. But in Washington, D.C., hardly anyone was listening even as "change" was being celebrated. ■