

The Democrats' Stalled Trade Agenda

Barack Obama made alliances with unions to win the election. Now, those unions demand favors which may save American jobs in the short term but will cost the United States in the long term.

by Greg Rushford

THE WAY AMERICAN presidential politics traditionally work, candidates run either from the right or the left, saying what they think they must say in order to get elected. But once they are safely in the Oval Office and the realities outweighing the campaign rhetoric begin to sink in, United States presidents tend to govern from the center—especially when concerned with America's leadership role in international trade.

At least, that was true until Barack Obama won the 2008 election as the candidate of protectionism. Mr. Obama came into office saddled with a disturbing array of protectionist chits owed to the usual short list of special pleaders in the ranks of organized labor who worked overtime to put him in the White House: most notably textiles, autos, steel and the dairy lobby. Mr. Obama trounced Republican John McCain last November in key battleground states such as Michigan, Ohio, Pennsylvania and North Carolina, places where fears

of global competition run strong. Mr. McCain, a free trader who refused to pander to the anti-trade crowd, paid the price for his integrity.

And now from his perch in the White House, Mr. Obama has begun to pay his political debts to the lobbies that backed him in the campaign. The headlines have appeared all year: Buy American provisions to help the steel lobby get major contracts federal construction projects for highways and airports. Stiff tariffs to curb imports of tires made in China, again for the steelworkers union. Bailouts for the United Autoworkers. More “buy American” stipulations in defense contracts to favor domestic clothing manufacturers.

White House inaction in key areas is even more telling. The Obama administration has failed to jumpstart the WTO's stalled Doha negotiations and seems to be

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biding its time on a free-trade deal called the Trans-Pacific Strategic Economic Partnership, as well as the U.S.-Korea Free Trade Agreement.

Perhaps the strangest part of this story is that Mr. Obama came into office vowing to do anything he could to promote U.S. job creation, only to adopt trade policies that threaten American jobs. But before taking a closer look at some illuminating details of the Obama White House's overall dysfunctional performance on trade in the president's first year in office, a little political history provides some helpful perspective.

Every American president since Franklin D. Roosevelt has generally followed a bipartisan centrist consensus to promote free international trade. True, from Ronald Reagan's “voluntary” trade restraints aimed at Japanese auto imports to George W. Bush's steel tariffs, every president had his occasional lapses. But beginning in the 1980s with the rise of the Japan bashers and “fair traders” (who have now morphed into China bashers) the post-war consensus gradually began to fray, while presidents' political maneuvering room became increasingly limited.

Nevertheless, in his two terms in office in the 1990s, Mr. Obama's nearest Democratic predecessor showed how, despite the political constraints, the game could still be played to America's (and the world's) economic advantage. In 1992, Bill Clinton, trolling for votes from organized labor as he ran for president against Republican incumbent George H. W. Bush, mostly expressed ambivalence regarding international trade. Candidate Clinton's rhetoric was tailored to appeal to the Democratic Party's union supporters who were indignant that the elder Mr. Bush was negotiating deals to expand trade: notably, the North American Free Trade

Agreement with Mexico and Canada, and also multilateral trade talks aimed at establishing the World Trade Organization.

But once he was in the White House, President Clinton soon realized that he could not afford to turn his back on America's traditional international economic responsibilities, despite the political costs. By December, 1993, as his first year in office ended, Mr. Clinton—after a bruising fight with the organized-labor dominated wing of his Democratic Party—had pushed Nafta through the U.S. Congress. In its second year, the Clinton administration successfully concluded the negotiations that established the WTO, again over the vehement objections of his party's protectionists. Later in his presidency, Mr. Clinton (wisely) fought the AFL-CIO and leaders of his party like Rep. Nancy Pelosi (now speaker of the House) to lay the groundwork for both China's and Vietnam's subsequent accession to the WTO.



These were among the brightest accomplishments of the Clinton presidency.

When he was sworn into office on Jan. 20, 2009, it first looked like President Barack Obama—who, like his fellow Democrat Mr. Clinton, had campaigned from the left as a trade skeptic, albeit with far much sharper protectionist rhetoric—intended to govern from the traditional center. In his inaugural address that chilly January afternoon on the steps of the U.S. Capitol, the new president declared that people around the world, “from the grandest capitals to the small village where my father was born” should know that America is “ready to lead once more.” Citing the scripture, the new president vowed that “the time has come to set aside childish things”—which economically literate optimists presumed would include shrill protectionism.

Indeed, Mr. Obama brought highly regarded economist Lawrence Summers—who had pushed the Clinton global trade initiatives first as a White House adviser and then as treasury secretary—back into the White House as his top economics aide. Mr. Obama turned to the politically talented Ron Kirk—a corporate lawyer and former mayor of Dallas, Texas—as his chief trade negotiator, an appointment that was initially not well received by organized labor. And Mr. Obama quickly dropped some of his more extreme campaign rhetoric, in which he had threatened to tear up the Naf-ta trade accord and launch massive economic and diplomatic warfare aimed at bending China’s economic and monetary policies to America’s will.

But now, as his first year in the Oval Office comes to a close, Mr. Obama has not done anything meaningful by way of exercising America’s traditional international trade leadership. Instead of governing from the center, the president has yet to really govern when it comes to trade. It seems that the White House is still in what may be permanent campaign mode.

Mr. Obama has refused to press Congress—where protectionists now rule to a greater extent than anytime since the 1930s Depression era—to pass preferential trade deals that predecessor George W. Bush negotiated with Colombia, Panama and South Korea. Mr. Obama has occasionally given lip service to the importance of concluding the WTO’s ongoing Doha Round of multilateral tariff- and subsidy cutting, but American trade negotiators have not been negotiating seriously all year. Mr. Obama did very little to boost the Doha negotiations when he hosted the G-20 leaders in Pittsburgh in September: another important missed opportunity. U.S. trade negotiator Mr. Kirk will go to the WTO’s ministerial meetings in Geneva on Nov. 30 prepared to talk about sealing a Doha deal, thereby kicking the can down the road to next year. As the U.S. president prepares to swing through Asia this month, including attendance at an important Asia Pacific Economic Forum meeting in Singapore from Nov. 14-15, diplomatic insiders report that Mr. Obama is expected to say nothing important on trade. All this at a time when global trade flows—the vital engine that, at least when it’s working on all cylinders, importantly drives worldwide economic growth—have been shrinking.

Trade isn’t even listed as any sort of a presidential priority on the White House Web site. President Obama has 23 “issues” highlighted, from “civil rights” to “women.” The “economy” is up top, but there is no mention of trade. Beyond the top 23, Mr. Obama lists seven “additional issues” he is concerned about, like “faith,” “child advocacy,” and the “arts.” Even Americans who hunt and fish are worthy of presidential concern. But while the president wants it known that he has a special place in his heart for “sportsmen,” there is no mention of the millions of Americans whose living standards depend upon international trade.

At least U.S. Trade Representative Ron Kirk somewhat mentions the benefits of international trade on the USTR website. According to the Web site, it turns out that those benefits are basically limited to Americans who export their widgets. On the other hand, Imports—which supply crucial raw materials to U.S. manufacturers while also benefiting consumers—are of of course also of vital importance to the health of the U.S. economy. After all, think of only electronic components that the Silicon Valley needs to import from Japan and Taiwan. But Mr. Kirk says nothing about such things. His Web site, which is meant to educate the American people of how trade benefits them, mentions imports only in passing. He also notes without further comment that America also is an importing nation.

Meanwhile, U.S. trade policy stumbles on. Mr. Kirk flew to Singapore in July, where he attended two days of meetings with trade ministers from the 21 country members of the Asia Pacific Economic Cooperation Forum. In Singapore, and in his more recent meetings with his fellow trade ministers, Mr. Kirk impressed just about everyone with his friendly personality, his grasp of the details of various issues, and his good intentions. But the representative of the world’s largest economy brought a weak negotiating hand to Asia. His marching orders from the White House were basically to smile and nod pleasantly. That and play for time when, if it comes, the president is ready to let him negotiate seriously.

While the Obama White House dithers, important trade deals like the one between the U.S. and South Korea languish. It is difficult to see the economic advantage in this for the American side. The Koreans, who are tired of waiting for Washington to act, have been busy working to forge closer preferential trade ties with the European Union instead. And it’s

likely to get worse, as the Australians want to do their own deal with the Koreans. This would slash tariffs for Aussie beef, leaving American beef saddled with 40% tariffs. One wonders how many American jobs would have to be threatened before Mr. Obama gets serious about moving the U.S.-Korea trade deal.

In Singapore in July, Mr. Kirk wasn’t even able to say that America would negotiate seriously to join the Trans-Pacific Strategic Economic Partnership. The TPP is a preferential trade scheme that was first entered into between New Zealand, Chile, and Singapore. Brunei has since joined in, as have Australia and Peru. Vietnam very much wants to join the club. So did the Americans, before Mr. Obama was elected president. In September 2008, Susan Schwab, then the Bush administration’s top trade negotiator, said that the U.S. would be entering into serious negotiations to join the TPP. But Mr. Obama has called that process to a halt. America, which didn’t lead in launching the TPP, now isn’t even willing to be a good follower.

Special-interest politics are holding Mr. Obama back. The U.S. National Milk Producers Federation is aghast at the thought of competing with a world-class dairy exporter like New Zealand. Mr. Obama looked to the dairy lobby to help him in states like Wisconsin on the 2008 campaign trail. And the U.S. textile lobby, which also supported Mr. Obama in the Carolinas, is frightened at the thought of lowering tariffs with Vietnam. Mr. Kirk has said he likes the idea of the TPP, whose members are amongst the world’s true leaders when it comes to lowering trade barriers. But because Mr. Kirk’s boss in the White House is so indebted to such classic American protectionist lobbies, the U.S. trade negotiator has little to give beyond empty talk. Even if the Obama administration decides to join the negotiations, the smart money would bet that the White

House strategy would then be to talk and talk and then talk some more.

To get a ground-level view of how strong the protectionist lobbies look from the White House perspective—and perhaps a glimpse into Mr. Obama's fortitude—look at the 35% tariffs on tires imported from China that the president announced on Sept. 12. This one was a political payback for the steel lobby, about as pure and simple as it gets.

The United Steelworkers of America, whose members also include tire workers, sought the trade protection under an unusual statute known as Section 421 of the U.S. Trade Act of 1974. During the Cold War, this law applied to “surges” of legitimately traded imports from “communist” countries that could materially injure a competing American industry (never mind that the law sounds like a description of what healthy market competition is supposed to entail). Pursuant to WTO rules that require the U.S. to treat all of its trading partners equally, the old law would not have applied to China—except that the Chinese were pressed to agree to its continuation as part of obtaining U.S. approval to become a WTO member.

Unlike other U.S. trade laws, Sec. 421 requires the final decision to be made by the president personally. Imagine the president of the world's only superpower, sitting in the Oval Office, thinking deeply about how much more American consumers should pay for the tires they buy. But Mr. Obama duly considered such weighty affairs, and decided two months ago that Americans should pay 35% on imported tires from China. To reach such a conclusion, the president was required to consider the broader American national economic interest, not just the narrower interest of the petitioning steel lobby. This is the part of the story where the politics trump the intent of the law.

If it were not for his political obligations

to the steelworkers, Mr. Obama's choice would have been simple. The steelworkers union estimates that it has lost 5,100 jobs in recent years due to import competition from Chinese tires, which are focused on the lower end of the U.S. market that domestic tire makers now source overseas. Furthermore, the union pointed to some 3,000 more expected job losses by the end of this year, as several more domestic tire manufacturers are expected to exit the less profitable low-end part of the market. The reason that the president's choice would have been simple—if economics and not politics were the driving force—is that those jobs are simply not going to return to the U.S. The most optimistic scenario is that the tariffs might save 1,800 American jobs. The problem is, tens of thousands of other Americans whose jobs depend on the Chinese trade could soon find their jobs threatened, as the market scrambles to look for affordable imports to replace the now-more expensive Chinese tires.

Indeed, the Obama tire tariffs are already failing. The U.S. tire plants that were scheduled to close, are still going to shut down. Tire industry sources are scrambling to find less expensive lower-tier tires from places like Indonesia, India, and Taiwan, to replace the tires from China that are now subject to the high tariffs. Nobody in the U.S. tire industry can be found who believes that the tariffs are going to save more American jobs than will be lost.

And even if it were otherwise, Mr. Obama's tariffs have already put other Americans' jobs at risk, as (predictably) the Chinese have already decided upon the classic tit-for-tat retaliatory measures associated with all trade spats. Beijing has filed an anti-dumping case that targets some \$780 million in imports of American chickens—most notably including the feet; Chinese diners famously crave their so-called chicken “paws” in soups and stews. Already, Chinese anti-dumping officials

have served papers on well-known U.S. poultry exporters like Tysons Foods, Pilegrim's Pride, and Keystone Foods. Keystone Foods, incidentally, is headquartered in Pennsylvania, which is also home of the steelworkers union.

The Chinese are reportedly considering targeting the U.S. automobile industry next. By trying to accommodate the United Steelworkers, the president has risked jobs among his allies the United Autoworkers of America. Such is the tragedy of protectionism: It never works as its supporters hope.

Obama administration officials insist that the president does not want to be known as the most protectionist president since Herbert Hoover. In 1930, Mr. Hoover signed the infamous Smoot-Hawley tariff, which helped turn a global recession into the Great Depression. But while Mr. Obama surely understands the point, on Capitol Hill the protectionist forces are on a tear. Rep. Mike Michaud, a Maine Democrat, a former paper mill worker who is one of the leaders of the House Trade Working Group, has come up with perhaps the “best” idea since Smoot-Hawley. Mr. Michaud has recently managed to line up 124 co-sponsors of legislation called the Trade Reform, Accountability, Development and Employment Act.

And what do these esteemed lawmakers want? Nothing less than for Mr. Obama to renegotiate all U.S. trade agreements, not just regional trade deals like Nafta, but the WTO itself. The president would demand that all 153 WTO member countries would agree to the “fair trade” agenda of U.S. organized labor. U.S. trading partners would have to support more “buy American” laws. They would have to accept sanctions on countries that operate “sweatshops” as defined by the AFL-CIO. They would agree to paying economic sanctions for various human-rights transgressions (again, as defined by Uncle Sam). There would be more economic punish-

ments for countries that have environmental practices that the American unions don't like—and on and on. To make sure the president would do as instructed, the legislation would create a “congressional super committee” that would basically call the shots.

Nuts? Of course. But up on an increasingly insular-looking Capitol Hill, lawmakers imagine that U.S. trading partners would agree to such things. They might consider a little recent history that strongly suggests otherwise. Ten years ago this month, President Bill Clinton—who, despite his embrace of globalization, never succeeded in bridging the gap between the protectionists in his party and so-called New Democrats who favor expanded trade—helped wreck the WTO's ministerial meetings in Seattle when he vaguely implied that someday the U.S. would think of sanctioning trading partners that didn't meet labor standards as defined by the AFL-CIO. Mr. Clinton's suggestion, meant to try to please his party's union base, was softly put. But offended Third World WTO members immediately went ballistic.

Now nearly one-third of the U.S. Congress would bring in the wrecking ball to wield against the WTO and the world's multilateral trading system. When he goes to Geneva later this month with his assurances that the Obama administration hopes to be ready soon to bring home a Doha deal, Mr. Kirk will likely get his ears burned on precisely how he expects to move a deal through Congress.

Somewhere in the netherworld of protectionists' final resting places, the ghosts of Senator Smoot and Congressman Hawley must be chortling at the task in front of Mr. Obama—when and if he decides that the time has come for him to show genuine international economic leadership. One thing is a certainty: The longer the president waits to lead, the more difficult it will be. ■