

Economic Interests

The Elusive Obama Trade Policy

By Bruce Stokes

In the vacuum created by the prolonged absence of an Obama administration trade policy, the Washington trade cognoscenti are like Estragon and Vladimir in Samuel Beckett's play *Waiting for Godot*, engaged in an absurdist dialogue trying to convince each other that a policy is bound to emerge any day. This exercise in self-deception is based on several faulty assumptions.

"It's all about the exchange rate," say the economists. Every percentage-point drop in the value of the dollar boosts U.S. exports by at least \$20 billion. So the administration has the right trade policy—it's just disguised as a weak-dollar policy.

Through November 2009 that strategy worked. The dollar weakened against many currencies and exports held up better than might have been expected given the spreading global recession. But what goes down can also go up. When Greece's economic crisis hit, the dollar reversed course, making U.S. goods and services more expensive abroad, a reminder that a trade policy based on the exchange rate is built on shifting sands.

"Just complete the Bush agenda," say business leaders. Finish the Doha Round of multilateral trade negotiations; bring the Colombian, Panamanian, and South Korean free-trade agreements to a congressional vote by a date certain; and launch an ambitious set of bilateral or regional trade initiatives. President Obama's promise to double exports in the next five years is cited as evidence that he is teeing things up to pursue such a strategy.

But this business-as-usual thinking fails to recognize that the game has changed. It assumes that trade policy is largely about opening markets, with little regard to their effect on the nation's balance sheet.

That worked in a period of American global economic predominance. But that world no longer exists. The bottom line on trade deficits now matters, and in all future agreements, it will dictate demands for reciprocity and a balance of benefits for the United States.

That probably means that, economically, the Doha Round is not worth completing; that the Panama and Colombia deals

should be put on the back burner because of their economic insignificance; and that the South Korea accord should be renegotiated to make it more favorable for American manufacturers. A U.S. trade policy focused on large markets, such as Europe and Japan, would deliver the greatest benefits.

"The 2010 elections are the obstacle to a trade policy," say pro-trade Democrats. The White House is unlikely to move on the Doha Round or the pending free-trade deals before November, to be sure. But things might not get easier after the election.

A lame-duck Congress's consideration of the South Korea deal presupposes that there won't be other, more pressing legislative business to finalize late this year. It also assumes that House Democrats, chastened by defeat at the polls, will defy organized labor's opposition to the Korea accord. But after the election, Democrats are just as likely to be in a foul mood and unwilling to hand a legislative victory to Republicans.

Won't a larger GOP contingent in Congress bode well for trade in 2011? Maybe. But if conservative Republicans owe their victories to tea party support, they may be as wary of trade deals as liberal Democrats are.

The 2011 optimism also presumes that Obama will want to move on trade deals to burnish his leadership image in the run-up to the 2012 presidential election. Why should Republicans, whatever their ideology, give candidate Obama those additions to his résumé?

"China and Europe will force the administration's hand," say those who have run out of other rationales. Aggressive efforts by China and Europe to sign free-trade agreements with India, South Korea, and nations in Southeast Asia will force the White House to jump back into the trade game, these analysts say. Obama's embrace of the Trans-Pacific Partnership, a trade negotiation involving a string of nations in the southern Pacific, is a sign that the president gets it.

Such competitive liberalization was expected to persuade Brazil to agree to a Western Hemisphere free-trade area in the 1990s and, in this decade, to force an early conclusion to the Doha Round. In neither case did it work. Nor have trade agreements negotiated by rivals pushed Congress to finish the South Korea deal. Why should such pressure work in the future?

Waiting for an Obama trade policy has so far been an exercise in futility. It should not also become an exercise in self-deception. ■

A U.S. trade policy focused on large markets, such as Europe and Japan, would deliver the greatest benefits.

bstokes@nationaljournal.com