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World Trade at Risk

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The decision by the House of Representatives on April 10 to change the rules for Congressional action on trade agreements drives a gaping hole in US trade policy and poses the gravest threat to the global trading system in decades. By rejecting long-settled procedures that prevented Congressional sidetracking of trade deals agreed by fully authorized Presidents, it instantaneously destroyed the credibility of the United States as a negotiating partner in the eyes of the rest of the world. Unless reversed soon, the House action will severely damage both the US economy and US foreign policy. It will particularly undermine the presumed goal of any new Administration in 2009 to restore our country's standing as a reliable partner in a cooperative multilateral world.

The main issue is not Colombia, although it is both regrettable and ridiculous that the House maneuver took place on a bill that sought to implement the Administration's free trade agreement with that country. It is regrettable politically because Colombia is our leading ally in South America and needs all possible help in its battles against drug dealers and terrorists, and because US rejection will provide powerful ammunition for Venezuelan President Hugo Chávez's campaign against the United States. It is ridiculous economically because virtually all Colombian products already enter our market duty-free while the agreement would provide substantially enhanced access to the Colombian market for US firms and workers, and because the murders of Colombian trade unionists that are the alleged reason for House rejection are totally unrelated to the trade deal.

The overriding issue, however, is the impact of the House move on overall US trade policy and thus the global trading regime. The unique Constitutional system of the United States, under which Congress is responsible for "foreign commerce" but the President has authority to negotiate with other governments, has required the creation of special procedures to mesh with the parliamentary systems of other countries where executive and legislative branches almost always work together. Without arrangements that assure reasonably prompt Congressional action on agreements as negotiated by the Executive, other countries will legitimately fear that Congress will simply let the deals languish or insist on further concessions. The House was in fact doing both with respect to the pending agreement with Colombia before the Administration forced the issue by submitting implementing legislation. Facing such circumstances, other countries will not take on the domestic political battles surrounding their own liberalization of trade barriers and thus will not engage seriously with the United States in either multilateral or bilateral talks.

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This is not theory but history. One of President Kennedy's crowning achievements, the Kennedy Round of trade negotiations of the 1960s, was shorn of two of its major components by Congressional refusal to approve or even vote on them. That action unbalanced the agreement so severely that a furious European Community, our main trading partner then and now, withdrew important commitments of its own and made clear that it would never again negotiate with the United States without firm assurance against the recurrence of such an outcome. The other major trading nations took similar positions.[1]

The result was the "fast track" process, embodied in trade legislation in 1974 and renamed Trade Promotion Authority (TPA) in 2002. Under those rules, devised largely by Democratic legislators and fully respected by both parties until now, Congress agreed to vote on trade agreements submitted by the President within a fixed period of time and without amending their terms

1. The episode is described in Destler (2005, 71–77).

provided that Congress authorized the talks in advance and Administration trade officials consulted closely with key legislators throughout the process (Destler 1997). This approach has enabled the United States, under Presidents and Congressional majorities of both parties, to participate effectively in international trade negotiations ever since. It provided the basis for the three subsequent large multilateral initiatives —the Tokyo Round of the 1970s, the Uruguay Round of the 1990s and the current Doha Round—and the series of free trade pacts starting with Israel and Canada in the 1980s that continued through NAFTA up to Peru most recently. It has thus permitted the global trading system to move steadily forward toward greater openness, with major benefits for the United States and the world economy as a whole.

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The House action abruptly and unilaterally terminates this highly successful system. The immediate effect is to end any remaining prospect for early conclusion of the Doha Round in the World Trade Organization, with full blame for that outcome directed to the United States, and to scuttle the pending free trade agreements with Panama and South Korea as well as Colombia.

The much more profound impact, however, is to remove the United States from any significant international trade negotiations for the foreseeable future. The chief current or former trade officials of three of the world's largest trading entities have told me since April 10 that "the United States has now lost all credibility with its trading partners around the world and no one will negotiate with it." The House's explicit repudiation of the timing deadlines under TPA, which were one of its central features, is far worse than the expiration of the authority last summer (as in earlier periods) when it was widely assumed that renewal was only a matter of time and, in any event, the integrity of the authority remained intact. The "time out" proposed for trade policy by one of the major Presidential candidates, a central goal of the opponents of globalization, has already been called.

The United States will suffer severe economic and foreign policy costs if the House action is permitted to stand. Careful studies at our Peterson Institute for International Economics show that the US economy is $1 trillion per year richer as a result of the trade liberalization of the past sixty years and that we would gain another $500 billion per year if the world could move to totally free trade. This translates into respective gains of about $10,000 and $5,000 per US household.[2] History clearly demonstrates that failure to continue opening markets creates a policy vacuum that leads to protectionist backsliding so that losses of some of the previous sizable benefits are likely to compound the large foregone gains (Destler and Noland 2006, 17-20).

The European Union, and the large and dynamic economies of Asia, will now strike trade compacts among themselves that discriminate against the United States rather than doing deals with us. Examples will probably include EU-Korea and perhaps EU-India, and eventually an Asia-wide trade area. We will lose billions of dollars worth of exports and the associated high-paying jobs. The multilateral trade system, including the highly effective dispute settlement mechanism in the WTO, will erode further and weaken our ability to tear down barriers in China, India and other large emerging markets.

These developments could not come at a worse time. Substantial improvements in our trade balance, fortified by continued growth abroad and a highly competitive dollar, are now cushioning our economic slowdown and in fact represent the strongest component of the US economy. Over the past six months, the fourth quarter of 2007 and the first quarter of 2008, gains in "net exports" accounted for the entire growth of gross domestic product.

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Most profound of all will be the impact on US foreign policy. Any new US Administration next year will seek to reverse the legacy of unilateralism inherited from its predecessor. But effective withdrawal from the international trading system moves in the diametrically opposite direction. This will be especially costly as the new President seeks to restore US leadership on key global issues, notably climate change with its central trade policy dimension. The next President will be very badly served by inheriting such a mess on trade and will have to eventually resolve this acute policy contradiction.

It would help if Congress and the present Administration could pick up the pieces and pass the Colombia agreement, and the pending South Korea and Panama agreements as well. But

2. The methodology and results are presented in Bradford, Grieco and Hufbauer (2005).

the fundamental problem of US international credibility on trade will remain until a foolproof Trade Promotion Authority, or some equivalent successor, is renewed and indeed ensconced permanently. This can only be done, probably by the next Administration, as part of a "grand bargain" that recognizes the costs of liberalization and thus includes a major expansion of governmental assistance to workers dislocated by trade and perhaps other sources of dynamic change in our economy.[3] In the absence of such a renewed foundation for an open and active US trade policy, both our economy and our foreign policy will suffer severely.

3. Detailed proposals are presented in Kletzer and Rosen (2005).

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