

# Obama's Big Failure

BY SUSAN ARIEL AARONSON

*His vague, cautious trade policy.*

**W**hen Americans went to the polls in 2008, they cast their ballot for the more deliberative and creative candidate. Voters wanted change and Barack Obama delivered. Despite the cumulative pressure of multiple crises, from two wars to an economy in freefall, President Obama was able to remake

key aspects of U.S. governance. Working with a fractious Congress, Obama's team has made significant changes to U.S. health, education, and banking regulatory policies. Beyond U.S. borders, Obama and his team have reestablished constructive relations around the world and remade national security

Yet the Obama Administration has offered few new ideas in the realm of trade policy, an area essential to long-term U.S. and global economic growth. It is way past time for a rethink of U.S. trade policy—given global interdependence, increasing competition for resources, and the unanticipated spillovers of the growing reliance by governments on preferential trade agreements, rather than multilateral trade liberalization. Alas, President Obama's approach to trade policy has been cautious and vague. And in the face of U.S. timidity, few other nations are willing to “think big.”

To his credit, President Obama early on recognized he could not negotiate new agreements unless he addressed longstanding public concerns.

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Thus, Congress expanded eligibility and strengthened trade adjustment assistance programs so that more individuals who lose jobs due to trade have income, retraining, and health-care until they find other jobs. He also promised to focus on enforcement of existing trade agreements and stressed that his team would vigorously scrutinize foreign labor practices. Finally, his U.S. Trade Representative tried to involve more citizens in the policymaking process by making the USTR web site interactive and broadening the membership of trade advisory committees. In recent months, the Administration became more ambitious, announcing that the United States would enter into negotiations for a regional Asia-Pacific trade agreement and would work to gain Congressional approval for three free trade agreements negotiated by the previous Administration. The President also promised to double exports over the next five years with his National Export Initiative. However, in the face of a rising dollar and a lifeless Doha Round, and the failure to develop a broad rethink of trade, it is unlikely that U.S. business can achieve that goal.

Because they have not put forward an alternative model, by default, Obama Administration officials have accepted

the Bush paradigm for trade liberalization. The Bush Administration reoriented trade negotiations from time-consuming multilateral negotiations towards bilateral and regional negotiations that covered more issues and sectors with willing countries. In this way, the Bush Administration addressed the how and what that had long frustrated trade liberalization.

However, the focus on preferential trade agreements has had several unanticipated side effects. Many countries became less willing to propose deep cuts multilaterally, while accepting or proposing deep cuts in key bilateral agreements. The cumulative effect of these agreements undermines both the effectiveness of the World Trade Organization and its fundamental principle of most favored nation (nondiscrimination among nations). Moreover, this strategy has not helped all countries. While WTO negotiations include all members, many smaller (or poorer) markets have not been invited to negotiate bilateral or regional free trade agreements. The citizens in such nations are thereby less able to reap access to global markets compared to their counterparts in larger or richer nations. Moreover, traders have less security of market access. Every one of these free trade agreements has preferential rules of origin, and their complexity and diversity may distort sourcing decisions. Finally, these bilateral and regional agreements often contain tighter standards for intellectual property and transparency, and broader standards for issues not covered by the World Trade Organization such as labor, the environment, and investment. The result has been a mish-mash of global trade governance, where some nations adopt higher standards on some of these issues some of the



**President Obama's U.S. Trade Representative Ron Kirk** has tried to involve more citizens in the policymaking process. In Wisconsin, Kirk meets with local dairy farmers and business leaders to discuss agricultural exports and international trade relationships.

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time. Such a plethora of approaches to trade governance may be confusing to market actors, and could undermine longstanding global norms. And there is little evidence that the plethora of bilateral and regional agreements have expanded trade sufficiently to meet some of the goals of these agreements—whether creating significant job growth, improving worker rights, or helping more people achieve sustainable development.

Given these negative spillovers, the Obama Administration should put forward a comprehensive approach to trade that returns the focus of trade liberal-

ization to the multilateral venue of the World Trade Organization. But in order to achieve public support for such change, he must address legitimate concerns about jobs, help firms reduce cost and better understand trade rules, and provide a means for the public to weigh the results of past trade agreements. The paragraphs below outline several ideas worth considering.

First, policymakers must do a better job of addressing the links between trade and employment. Given high unemployment in the United States and other countries, many people fear that trade liberalization could increase unemployment. The world faces a global job crisis, but understandably policymakers have made creating domestic jobs their top priority. Job creation is not a zero sum game, where the jobs gained in one nation are lost in another. But how a nation creates or preserves jobs can have implications for the terms of trade in another. For example, policymakers can stimulate the demand for workers by increasing demand for various goods (as through domestic stimuli), by reducing the supply of workers (by controlling immigration), or by reducing the power or ability of workers to organize, bargain collectively, or strike. Some countries subsidize inefficient factories to maintain employment and forestall social and political protest. These strategies may distort both trade and employment. The Obama Administration should suggest that all WTO members monitor this relationship as part of its response to the global downturn. The WTO trade policy review body currently monitors WTO countries for trade distorting stimuli; they should collaborate with the International Labour Organization to see how the same stimuli affect employment. Such an examination



*The Bayan Obo mines in China's Inner Mongolia are the largest deposits of rare earth metals yet found. Some countries such as China have curtailed exports rare earth elements in the interest of maintaining adequate supply for domestic needs.*

could help the Administration win greater trust among workers and labor organizations that tend to oppose trade liberalization.

Second, the Obama Administration should also provide greater certainty to business about preferential rules of origin. Rules of origin are used by nations to determine the country of origin of goods and services, but firms can distort these rules to obtain lower tariffs. A pair of Levi's jeans may have different countries of origin for customs purposes depending on where the garment is made and where it is to be exported. These rules of origin have become increasingly complex due to growing numbers of preferential trade agreements. Each free trade agreement has different rules which have increased business uncertainty, raised costs, and led to trade diversion. It is expensive for firms to amortize these costs, and thus they fall heaviest on small- and medium-sized firms—the very firms that the Administration wants to export more. Although WTO members are working to simplify and harmonize these rules of origin, that process is unlikely to be completed in the near future. But the United States can create greater certainty, prevent trade diversion, and encourage development through its own actions. The United States should develop a model template of rules of origin for free trade agreements and make sure all of its existing free trade agreements and future WTO negotiations follow this model. This can be done without renegotiating the agreements.

A new approach to trade policy should also address emerging issues, including trade in resources essential to life such as water and fertile land. Trade is already being curtailed in some of these assets; for example, some countries such as Saudi Arabia have bought huge plots of agricultural land in Africa and they use this land for food production for the Saudi people. While trade in land may well increase access to food for some of the world's people, it also may undermine access to productive land for citizens of those countries. Meanwhile, some countries such as China have curtailed exports of minerals such as rare earth elements in the interest of maintaining adequate supply for domestic needs. Such export controls obviously distort trade and a solution must be developed mul-

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tilaterally to ensure that pricing and distribution of needed resources is equitable and efficient. The United States should develop proposals for the World Trade Organization to address these issues.

Finally, a new approach to trade policy should provide citizens with the information they need to understand how existing trade agreements have affected the U.S. economy and polity. The U.S. Congress reviews the impact of WTO membership every five years and by law, examines potential trade agreements for their effects on employment, labor, and the environment. But these studies have been selective and examine only a few aspects of how the trade agreement has affected key policy objectives. In 2009, some 146 members of Congress announced their support for a bill which requires the Government Accountability Office, Congress' investigative arm, to review biennially trade agreements for their economic, environmental, national security, health, safety, and other effects. While the GAO may not be the best place to do this analysis (the International Trade Commission may be better), policymakers should welcome a fact-based empirical analysis of the impact of trade agreements. Once these studies are complete, policymakers should use social networking and public fora to discuss their findings. These studies should give us a better understanding of what trade agreements have achieved and how they can be improved.

Trade policies should send clear signals to market actors, preclude rent seeking, and help more of the world's people obtain greater access to resources and opportunities. The global downturn has provided us with an opportunity to think creatively about how and what trade agreements should include. This is an opportunity the Obama Administration should not waste. ◆