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## UNWISE TO PIN MUCH HOPE ON AMERICA IN GLOBAL FREE TRADE

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Is the media so starved of good news on trade liberalisation that it will laud even the most middling announcement? The huge fuss made over the leaders' speeches at the Asia-Pacific Economic Co-operation summit, announcing their commitment to a "new" trade deal -- the Trans-Pacific Partnership -- was perplexing, given the negotiations started years ago and are far from the finish line.

A similar fuss was made over recent US passage of trade deals. The headlines were glowing: "A Bipartisan Triumph" (The Wall Street Journal), "Admit It: It's Victory" (Investor's Business Daily). With the US Congress finally approving three trade deals after years-long delays, there was indeed much to celebrate. But the fact is significant obstacles remain to renewed US leadership in global trade liberalisation more broadly and thus to a surer recovery from the global financial crisis.

First, the good news from the US. Although well overdue, the preferential US trade agreements with South Korea, Colombia and Panama were approved by a healthy majority in both houses of congress. Politicians from both parties supported the deals, and President Barack Obama threw his (somewhat grudging) political weight behind deals negotiated by his predecessor. The deals will, by the administration's reckoning, yield \$12 billion worth of benefits to the US economy and will broaden opportunities for US businesses and consumers to access markets abroad more freely. And by passing the agreements, the US obviated the diplomatic and commercial embarrassment of failing to ratify.

But behind the headlines, less hopeful signs emerge. First, the roll call was worryingly partisan. As Phil Levy from the American Enterprise Institute points out, the share of House Democrats voting for the deals ranged from a low 16 per cent (for the Colombia deal) to just 35 per cent (for the Panama agreement, relatively small and noncontroversial). Even the Korea agreement, which President Obama made a big show of supporting, having renegotiated it last year to appease the auto workers' union, garnered only 31 per cent of Democratic House votes.

Moreover, the cost of getting these agreements passed may turn out to be prohibitively high. President Obama submitted the deals for ratification only after receiving assurance that congress would also pass an expanded version of a long-existing program of extra

training and benefits for workers who lose their jobs because of import competition. The Congressional Budget Office estimates the cost at more than \$1bn a year, when money is tight. But more importantly, the fight was so rancorous and the effort so draining that future trade liberalisation efforts seem out of the question.

The clearest indication the administration had little interest in further trade deals was President Obama's quiet rejection of Senate Majority leader Mitch McConnell's September offer to give him Trade Promotion Authority, generally accepted as necessary for future trade negotiations to begin, let alone yield results. But even before that, the President exhibited an ambivalence towards trade policy: it was rarely mentioned in his first two years in office. The US ambassador to the World Trade Organisation earlier this year denigrated the Doha round negotiations. It will fail without US engagement, let alone leadership.

Even the much heralded TPP, under negotiation with eight other Asia-Pacific economies including Australia (the only trade agreement the Obama administration can lay claim to initiating), is proceeding at a slow pace and with some controversy. Indeed, there is still disagreement among the parties about what the deal will cover. The beguiling possibility of Japan joining the pact is a recent and positive development, but there are significant obstacles (namely, agriculture and medicines) to its full participation.

There is a sense in Washington that the recent push to ratify the three completed agreements exhausted all the political capacity to confront the noisy forces of protectionism. They are by no means exclusively on the Democratic side: although Republicans in Congress generally support freer trade, the frontrunner for the Republican nomination for president, Mitt Romney, has pledged to label China a currency manipulator early in his presidency, an act that would set off a chain of procedures possibly culminating in extra tariffs on Chinese goods. A bill promising the same policy has already passed the Senate and is being staved off in the House only by procedural rules and a reluctant House leadership.

The traditional post-war bipartisan consensus on trade started breaking down in the mid-2000s, when the Democratic leadership in Congress became indignant about what it saw as the Bush administration's arrogance on trade policy. Many thought bridges were mended after the agreement with Peru in July 2007. Instead the passage of other trade agreements came to a halt, where they languished until October.

Unfortunately, trade policy has been caught up in a broader debate about globalisation and its effect on the US middle class, a debate that will be fraught as long as the US economic recovery is halting. That is ironic given free trade is one of the best engines of prosperity and dynamism the US -- and the world -- has known.

Sallie James is a trade analyst at the Cato Institute in Washington, DC, and will present at the APEC Study Centre, RMIT University, conference in Melbourne today on Australia's Trade and Competitiveness.