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The president and trade

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As Barack Obama embraces exports, trade friction looms

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A GLOOMY office park in suburban Chicago is the home of NewMedical Technology. At the moment the young company has only one main product, silicone strips to reduce scarring after surgery. But in its tiny warehouse, employees busily pack boxes to be shipped to Brussels. In the past year the firm's business has expanded quickly; NewMedical now exports to South America, Europe and Asia.

It is the type of growth Barack Obama dreams of. Consumers are nursing battered balance sheets and the government is wallowing in debt. That puts the burden on exports to carry the recovery; Mr Obama wants them to double over the next five years.

On March 11th, as *The Economist* went to press, the president was rolling out a batch of initiatives to help the process along. The most significant responds to complaints that national security controls interfere with exports. The current system will be replaced with a one-time notification. The review time would drop to 30 minutes from the current one-to-two months for 85% of the 3,300 affected products. Standards governing how exporters allow foreigners to handle products with potential military applications will be simplified. The Export-Import Bank's authorised financing will rise, with special attention to small companies like NewMedical. Gary Hufbauer of the Peterson Institute notes that America's export financing has shrunk dramatically, from 25% of relevant merchandise in the 1970s to 3%. More symbolic steps include naming an "export promotion cabinet" and reactivating a private sector advisory board on trade, chaired by the chiefs of Boeing and Xerox.

How much difference will this make? Exports are unlikely to double; in 60 years the only time that has happened is when inflation was puffing up the figures. Yet exports seem bound to grow since the rest of the world is growing faster than America and the dollar is weak. The trade deficit shrank last year, because exports fell less than imports (see chart).



The administration is trying to get more companies to export; less than 1% now do, and of them 58% export to just one country. Yet getting small firms to export more won't help the economy much in the near term, says Matthew Slaughter of Dartmouth College. The big firms that export most of America's goods don't need promotion, they need better access.

Mr Obama has expressed more support lately for completing free trade agreements with Panama, Colombia and South Korea, the Doha round of world trade talks, and the Trans Pacific Partnership, but that has not translated into results. Only the Panama deal is likely to be done soon; progress on the others has slowed to a crawl over Democrats' concerns about violence against unions in Colombia and America's inability to sell more cars to South Korea.

Ron Kirk, Mr Obama's trade representative, knows that whatever their economic merits, trade agreements need political support. He sought to make Dallas "the capital of NAFTA" when he was its mayor. But his wife comes from a family of autoworkers and he knows that "as much fun as it is to go to Geneva, the battle for free trade will be won in Detroit." The affable Mr Kirk says at least the South Korea and Colombia deals have vocal domestic advocates urging progress. "There is no one knocking on my door saying they're excited about moving Doha forward," he says.

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with trade unions, has just become chairman of the House of Representatives committee overseeing trade (though the Cato Institute, a libertarian think-tank, reckons Mr Levin's voting record on trade is much the same as that of Charles Rangel, the outgoing chairman).

Given the miserable state of the world economy, protectionist pressures have been remarkably quiescent. In the United States, Mr Obama's foolish tariff on Chinese tyres has, thankfully, yet to trigger a flood of imitations.

Yet dangers loom. Mr Obama has stepped up his criticism of China's fixed exchange rate. A group of senators has urged him to side with a paper company that wants the Commerce Department to treat China's pegged currency as a subsidy subject to countervailing duties. Separately, speculation is mounting that the Treasury will label China a currency manipulator, a step it twice declined to take last year. Brazil is about to impose tariffs on American goods after the World Trade Organisation ruled America unfairly subsidises cotton. With employment still shrinking and the mid-terms approaching, free trade faces a rocky path ahead.

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