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Interview with Bruce Stokes

USAPC: After months of deadlock, it appears that US lawmakers soon will vote on legislation to implement three potentially lucrative Free Trade Agreements (FTAs) – the US-Korea FTA, the US-Colombia FTA, and the US-Panama FTA. In the Senate, these votes will occur only after the upper chamber has passed a bill to reauthorize the Trade Adjustment Assistance program (TAA), which provides assistance to workers who lose their jobs owing to trade liberalizing agreements. The House leadership has pledged to bring the three trade accords to the floor for a vote "in tandem with" separate consideration of TAA legislation.

Based on your extensive polling of US public opinion on trade matters, was this stand-off about the linkage between TAA reauthorization and the approval of the FTAs and the sequencing of these votes worth it to the average American voter?

Stokes: The stand-off stemmed from strong partisanship in Congress and a deep lack of trust between the two parties. Republicans argued that Congress should pass the FTAs first and deal with the TAA program afterwards.

Democrats were equally strong in insisting that Congress approve the TAA extension first, and then proceed to the FTAs. They evidently feared that Republicans would not hold up their end of the deal and the TAA bill would never make it to the floor. In reality, for quite some time there has been sufficient support in both houses to pass all four bills.

There hasn't been a lot of polling about the linkage between action on the FTAs and TAA because, for one thing, most average Americans don't know what the latter is. As you say, the TAA program provides assistance to workers who lose their jobs owing to competition from imports.

Technically, this program is authorized through February 12, 2012. But Congress significantly expanded TAA as part of the massive, post-financial crisis stimulus package – the American Recovery and Reinvestment Act of 2009. This included extending benefits eligibility to service sector workers and nearly tripling the funding for re-training services. Those *expanded* features lapsed earlier this year. So when Democrats argue for an extension of the TAA program, they are referring to the enhancements that were added as part of the 2009 stimulus bill.

If asked, most voters probably would say that workers should be given some help in adjusting to changes in their employment status owing to trade liberalization. The American public generally is in favor of the government helping them to do most anything. We certainly heard that during the debate surrounding the eleventh-hour deal to raise the US debt ceiling.

Most people said, yes, we must get the debt under control – but, by the way, don't cut Medicare, Social Security, and so forth. Many Americans still want all of these government benefits. So if you conducted a poll today, most Americans probably would support extending TAA for the same reason.

One of the reasons why Republicans have opposed linking action on the FTAs with an extension of TAA benefits is because they have regarded TAA as a duplicative and ineffective waste of money. In 2010, total budgetary authority for TAA was about $1.8 billion. But a compromise hammered out in late June between the White House, Senate Finance Committee Chairman Max Baucus (D., Montana), and House Ways and Means Committee Chairman Dave Camp (R., Michigan) would extend the 2009 enhancements through 2013 – but place limitations on certain aspects of the program to rein in overall costs. So in the grand scheme of things, the TAA program really would not cost a lot of money.

I would argue that the debate we should be having is about how to improve the TAA program. Does it need to grow? Should it be overhauled? I'm one of the few people in Washington who actually has interviewed people about this program. These interviews indicated that there are real problems with the TAA program, particularly with respect to re-training benefits. For many workers, TAA simply becomes extended unemployment insurance.

This really is a question of whether you believe the government has a role to play in helping people adjust to governmental actions that have the effect of depriving them of a job. In reality, that is a philosophical question. But we aren't having that philosophical debate and we aren't thoughtfully considering how to make this inadequate program better, which likely would entail allocating more money and restructuring it even more. Instead, the debate has been overly simplified to "kill it," or "keep it."

We are missing an important opportunity. Even if Congress passes a bill to extend the TAA's 2009 provisions – which looks likely in the coming days -- the program still will be insufficient to meet the needs of the country.

Do we have a moral responsibility to help people who lost their jobs owing to trade liberalization? I think we do. Is it in our long-term economic self-interest to get people back in the work force and performing productively again? Absolutely.

But would reauthorization of the TAA program make approval of the US-Korea FTA more attractive to the average American voter? I don't think so because, as I said earlier, the average American doesn't know what TAA is. This paralyzing linkage has been in the minds of Members of Congress because politics is about making deals.

USAPC: The recent report of the Transatlantic Task Force on Trade, to which you were a leading contributor, said that US trade initiatives should be crafted to address more clearly people's fears, especially about China, and more directly deliver job-related benefits. How might that goal be pursued legislatively or via government negotiations? Is this a case where legislators and administration officials should focus on developing policies that better enable US business to deliver such benefits from trade?

Stokes: It is fair to say that none of this can be accomplished by the government alone. Business gets things done. That said, business operates in a context. There are many things government can do, such as seek lower tariffs and remove non-tariff barriers, which have the effect of encouraging certain activities and discouraging others.

When some people argue that government "should just get out of the way," that implies that in a world in which there are no governments, certain economic activities would just happen

spontaneously. But in reality, even to create a world of "no government," one would need government action.

Whatever we do going forward in trade, whether this be the Trans-Pacific Partnership (TPP) agreement or separate trade agreements with Japan or India, such initiatives must be framed in terms of economic growth and jobs. If the US government can't demonstrate that a trade agreement will significantly increase US growth and create new jobs, I don't think there would be political support for it – and that would regardless of whether the trade agreements include provisions establishing labor rights and environment standards.

The American public has indicated time and again that they are most interested in debt reduction and jobs creation. The Obama administration understands that. In my discussions with White House officials, they already are thinking about how to frame future trade agreements – beyond the three pending FTAs -- in a way that highlights their potential for job creation.

That very issue could be a sticking point with respect to congressional approval of legislation to implement a final TPP deal. As visionary, forward-leaning, and necessary as TPP may be, the US government must be able to go back to the US Congress and say the TPP agreement will create "X number" of new jobs -- and back up that claim with some credible evidence. For that reason, I think it will be very difficult for the Obama administration to secure congressional approval of TPP.

USAPC: So the politics surrounding US problems with its current account ultimately could affect our trade policy?

Stokes: One of the things that our trading partners must realize is that America is in a very different economic situation than in years past. And this may be the case for the foreseeable future. The United States was the market of last resort for the entire post-war period. That was tremendously beneficial for us economically and with respect to our foreign policy.

In the run-up to the 2008 financial crisis, however, the United States allowed its current account deficit to reach 6 percent of GDP. We would be foolish to allow that to happen again. I think many people believed that level of deficit helped to cause the crisis. That is because with debt levels so high, one had to figure out how to move massive amounts of money in and out of the country to service the debt. That, in turn, encouraged all sorts of creative accounting and the development of exotic financial instruments.

We have to ensure that our current account deficit is more manageable, perhaps in the range of 2-3 percent of GDP. We can export more, but the arithmetic still doesn't quite work. We can't close that gap purely through exports. Alternatively, Americans could just consume less, but that wouldn't necessarily be in our self-interest or help the rest of the global economy.

It does seem that we should produce more domestically of what we consume. But that, in turn, would decrease the appetite for free trade agreements. Certainly, when Congress approves trade agreements going forward, one of the new criteria will be whether the accord will encourage a foreign firm to build a plant in the United States from which it could export to third markets. That was never something we worried about before.

USAPC: So the question of whether a trade agreement will encourage a foreign country to increase its green-field investment in the United States will become increasingly important?

Stokes: Yes. For example, in the coming years we will experience a tidal wave of Chinese foreign direct investment in the United States. One of the issues we have to consider is whether that investment would create new US jobs or simply maintain jobs. Job maintenance is good; we shouldn't downplay that. Obviously, sometimes when a US plant is purchased by a foreign interest, it doesn't close, so jobs are preserved. That's great.

But we need to think about how that investment can be channeled to encourage green-field, job-creating foreign direct investment -- both because it helps the US economy but it also helps the political atmosphere. If a foreign entity creates jobs in the United States, Americans don't tend to regard it as a danger to the United States.

That's what the Japanese learned in the 1980s and 1990s. Initially, there was a big uproar when some of the major Japanese auto makers built factories in the United States. Over time, however, the biggest defenders of these Japanese companies became the senators and congressmen from Tennessee, Kentucky, and Ohio, where Nissan, Toyota, and Honda built major plants that have employed many Americans.

USAPC: Some commentators have suggested that any such increase in Chinese foreign direct investment in the United States likely will result in a corresponding increase in investigations by the Committee on Foreign Investment in the United States (CFIUS) as per the Chinese National Oil Corporation's (CNOC) attempted acquisition of Unocal in 2005. Would you agree?

Stokes: There wasn't any polling related to the CNOC deal. But in 2006, there were polls related to plans by state-owned Dubai Ports World to buy P&O, which operated several major US ports. Some 57 percent of the American public said they were against the acquisition by Dubai Ports World. At that time, this response was criticized as horribly protectionist.

In fact, the Pew Research Center polled Americans back in the 1980s about their views concerning the influx of Japanese foreign direct investment in the United States. Some 70 percent of the public indicated they opposed the sharp increase in Japanese foreign direct investment in this country.

So, yes, there is still wariness and opposition to foreign direct investment in the United States. In reality, though, the degree of opposition is down dramatically from levels in the 1980s. That's the good news.

The bad news is that China's efforts to invest in the United States will be an ongoing problem owing to its state capitalism. There is wide-spread suspicion that Chinese companies investing in the United States and doing so with subsidized money and that will create unfair competition for existing US manufacturers.

If the Chinese were to buy the last company of its kind in the United States, it really wouldn't matter whether or not the investment was subsidized. But otherwise the implicit subsidization of state-owned companies investing in the United States is going to be a problem. That is separate

from the CFIUS process -- which only pertains to the national security implications of foreign investment.

All of this to say, we probably will see some new agitation to have not only a national security review of foreign direct investment but also some kind of review of economic benefits of such investment. So far, some of the labor unions and groups on the left are the only ones who have raised the latter concern, which means a push for economic benefits analysis probably won't go far. But we should bear in mind that the Canadian government undertakes an economic benefits analysis as does the Australian government.

As I talk to Europeans – who will see this wave of Chinese investment as well – the orthodox position seems to be that the EU doesn't want investment by state-owned Chinese entities either because it's bad for business. Consequently, there is increasing pressure on the European Commission to undertake an economic benefits review of such investment. If, indeed, Brussels proceeds with such analysis, the Untied States truly would be one of the few countries in the world that did not conduct such an assessment.

So while I don't think the economic benefits argument will go far in this country, it is by no means a dead issue. People should be aware that this proposal could be coming down the road.

USAPC: But in the short-term China remains a concern for many US lawmakers. You're your writing on this subject, and you don't anticipate much support for a bill aimed at penalizing China for its under-valued currency.

Instead, you suggest that we could see a revival of support for trade and economic reciprocity. This approach was en vogue in the 1980s in response to problems in US-Japan trade relations.

Stokes: Yes, I have proposed this in part because I'm hearing it quite a bit from the Europeans. They are taking a very hard look at reciprocity, but for different reasons. The Europeans are upset that their companies can't own more than 49 percent of certain Chinese companies, can't expand their operations in China, and so forth.

As a way of making it easier for European companies to operate in China, European officials are toying with the notion of putting some restraints on Chinese investment activities in the EU. I understand that European officials have raised this proposal with their American counterparts.

If one takes the view that future trade liberalization must lead to a more sustainable balance or at least a smaller deficit, how does Washington ensure that future trade liberalization does not return the US current account deficit from the 3 percent of 2011 to the 6 percent of 2007? Trade policymakers and officials are driven in the direction of reciprocity because they know that we no longer can have these unequal, unbalanced deals, which, in fact generate even more deficit for the United States.

For both political and economic reasons, US officials have to be able to say this is a reciprocal deal that will deliver a balance of benefits. The issues that were very prominent in the 1980s and eventually were dismissed may arise again. It seems there is a logic to it that drives us in that direction once again.

USAPC: The United States has been criticized by many of our trading partners for the lack of progress in the Doha Round. You have suggested that our trading partners apparently don't realize that econometric analyses indicate that what's "on the table" actually would exacerbate the US current account deficit.

Dr. Fred Bergsten, director of the Peterson Institute for International Economics, made a similar point at the USAPC Annual Washington Conference this past May that there simply is not enough on the table to benefit US business.

Stokes: Yes, I agree. The problem with the accepted formulation is that it sounds like we're just greedy. I think the situation is a little more complex than that, involving the fact that the United States no longer can be the buyer of last resort. We no longer can agree to agreements that are good for the world, but worsen the US trade balance in the process.

In reality, the United States and the rest of the world economies are entering different eras. It's not just that the United States has become tired, protectionist, or isolationist. We may be all of those things. But it's also because the underlying economics have changed and the United States has to adapt our trade policies to that new reality.

That is not a majority view. In fact, it is a fairly radical view because it means that a lot of things would have to be re-thought. But I do think that we have to at least consider that maybe this is what is going on. It is more profound than, "Oh, those protectionists in Congress are holding things up." In an inarticulate way, there is something more profound happening.

The manifestation of this is, as Fred says, that business is not pounding down doors to realize completion of the Doha Round because there simply isn't enough in it for them. And if there isn't enough in it for business, then there isn't enough in it for the country as a whole and the economy.

With respect to the TPP, the labor unions have raised a fairly profound question that is an outgrowth of this analysis. One of the goals of TPP is to streamline the production chains, customs procedures, and so forth. But labor has asked a fundamental question: will this streamlining under TPP ultimately increase exports from the United States or increase imports to this country? Hopefully, TPP it will do both, but if the balance is weighted toward more imports than exports, that's a fundamental question we should ponder if I'm right about these broader economic conditions.

USAPC: With respect to the so-called death of Doha, in one of your recent articles you proposed that we should just let go of Doha and focus on bilateral and regional agreements.

Stokes: Based on what has happened most recently at WTO headquarters in Geneva, it would appear that negotiators are giving up on an early harvest and are thinking about how to proceed in 2012. I know almost no one in Washington, DC who believes that the Doha Round can be finished.

But we do need to focus on how to preserve the multilateral trading system without a negotiation, which is not an insubstantial challenge. One of the ways we can pursue that is to consider how we might harmonize all of these bilateral and regional agreements in a way that makes them more compatible with the WTO. How can one ensure that the rules of origin in

CAFTA or NAFTA are somewhat similar to the rules of origin in TPP? Is that even possible in view of the fact that the three agreements were crafted for different reasons and at during different economic times? It seems to me that you could bring all of those agreements to the WTO and stitch them together. But the first step in that process would be to work on more bilateral and regional trade deals.

Countries have demonstrated that they aren't willing to wait for the multilateral system to deliver results because this takes too long. Many industries have 18-month product cycles. They will pursue whatever economic benefits they can realize via bilateral or regional agreements that are concluded in a comparatively timely fashion.

Rather than lamenting that trend, countries should adapt and pursue bilateral and regional agreements that are of the highest quality. We should be asking ourselves, "How can we realize greater compatibility among these bilateral and regional accords and use them as trade liberalizing building blocks."

I've long advocated that the United States pursue free trade agreements with Europe and Japan – not because they would be easy to conclude, but because they would provide the most bang for the buck. If your going to pursue bilateral and regional agreements, don't spend time and resources focused on smaller trading partners.

Some worry that the trend toward bilateral and regional agreements will undermine the multilateral trading system. I think at this point we say, "Look, the multilateral system is not the greatest of our worries right now. It is growth and jobs." If we can generate growth and jobs through a bilateral agreement with Europe or Japan, we should do it. And if that helps the multilateral system get its act together and complete the Doha Round, fine. But we can't deny ourselves the economic benefits of more open markets because 150 people in Geneva can't agree.