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Washington Report

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Jobs Creation And The US Trade Agenda: Finding The Way Forward

Interview with Mr. Bruce Stokes, German Marshall Fund of the United States

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.

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KORUS FTA Poised For Approval By Congress

Supporters of the Korea-United States Free Trade Agreement (KORUS FTA) have their fingers crossed that Members of Congress finally will approve legislation to implement the accord shortly after returning from their August recess. Senate Republican and Democratic leaders appeared to set the stage for such action on August 3 when they agreed on a “path forward” that will enable votes on the US free trade agreements with Korea, Colombia, and Panama as well as a separate bill to renew an expanded Trade Adjustment Assistant Program (TAA). Despite some sparring in late August between the White House and Republicans about obstructionist tactics employed by the other, insiders are hopeful that a mutually agreed upon legislative mechanism will ensure that proponents of the FTAs and advocates of an expanded TAA program ultimately will get what they want. The only obstacle may be a crowded legislative calendar.

Linkage Logjam — Although all three of the FTAs were concluded during the previous administration, the Obama White House has refused to submit the requisite implementing legislation to Congress unless it was assured that Congress would pass a bill to extend expanded benefits for the TAA program. The latter provides welfare and re-training assistance to US workers who lose their jobs owing to increased import

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Stokes Interview

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 happen 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 and it also helps the political atmosphere. If a foreign entity creates jobs in the United States, Americans don't tend to

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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 (CNOOC) attempted acquisition of Unocal in 2005. Would you agree?

Stokes: There wasn't any polling related to the CNOOC 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 53 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 because of China's state capitalism. There is wide-spread suspicion that Chinese companies investing in the United States will do 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.

As a result, 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 the 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 United States truly would be one of the few major 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 have been writing about this issue, and you don't anticipate much support for a bill aimed at penalizing China for its under-valued currency.

Instead, you have suggested that we would 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.

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FY2012 Foreign Relations Bills Reveal Differences On Foreign Aid

In the weeks leading up to the August recess, the House Foreign Affairs Committee and the Senate Foreign Relations Committee released separate bills that serve not only as statements of policy concerning US diplomatic and development priorities but also as guides to spending on overseas engagement. While there are numerous differences between the bills, lawmakers in the House and Senate most clearly parted ways over the nature and funding of US foreign assistance programs.

House Bill — The [Foreign Relations Authorization Act, Fiscal Year 2012](#) (HR 2583), approved by the House Foreign Affairs Committee on July 21, would hold overall spending at the FY2011 level of \$48.3 billion — \$7.4 billion less than the administration's \$55.7 billion request for State Department and aid funding in FY2012. Importantly, the House bill would place various restrictions on the funding and operations of the US Agency for International Development (USAID) and the Millennium Challenge Corporation (MCC).

Specifically, HR 2583 would allocate \$1.52 billion for USAID's FY2012 operating expenses, which is 13 percent below the president's FY2012 budget request. The House bill also would strip USAID's budget authority and designate one office at the State Department to prepare budgets for both the Department and USAID.

Concerning the MCC, even fiscally conservative Republicans have lauded its approach to development, which requires recipients to demonstrate good governance and pursue economic reforms. Yet, House foreign policy authorizers reduced the MCC's total allocation to \$900 million, which is 20 percent less than the administration's request. Moreover,

H.R. 2583 would prohibit the United States from providing any non-MCC assistance to a country that does not meet the MCC's "corruption performance indicator." Democrats argued that important aid recipients such as Afghanistan, Bangladesh, Egypt, Haiti, Iraq, and Pakistan, and others would fail to meet this MCC standard — which in and of itself has proven to be imperfect.

Senate Bill — In contrast, [the Senate bill](#) (S. 1426), introduced July 27 by Senate Foreign Relations Chairman John Kerry (D., Massachusetts), generally adheres to the President's FY2012 budget request. According to Kerry, S. 1426 offers a "renewed commitment to global development efforts" and aims to provide USAID and MCC with sufficient authority to improve program effectiveness. The Senate bill does not, for example, tie non-MCC aid to a MCC corruption indicator. Neither does it eliminate USAID's authority over its own budget, among other differences.

In an [op-ed piece](#) published August 3, Kerry argued that the United States could not afford to "pull back from the world" despite the budget crisis. The cutbacks to foreign aid favored by fiscal conservatives are a "formula for isolation and shrinking influence," he charged, noting that US development programs and foreign policy initiatives account for barely 1 percent of the annual budget.

Outlook — The House may vote on HR 2583 in the coming weeks, but the outlook for further action on S. 1426 is unclear. Insiders are very skeptical that the two vastly different bills will even advance to conference. The real determiners of FY2012 funding priorities, they say, ultimately will be House and Senate appropriators. ♦

OFFICIAL WASHINGTON

In each issue, **Washington Report** will provide the names and contact information for selected executive branch officials with jurisdiction over economic, political, and security issues important to US-Asia Pacific relations. This issue focuses on pertinent personnel from the Office of the US Trade Representative (USTR).

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Stokes Interview

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.

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CONGRESSIONAL WATCH

National Defense Authorization Act for Fiscal Year 2012

— On June 16, the Senate Armed Service Committee [reported](#) a defense authorization bill for FY2012 that included provisions that would place on hold a long-planned realignment of US Marine Forces from Okinawa to Guam. It also would delay the tour normalization on the Korean Peninsula until the Defense Department provides Congress detailed master plans related to these basing changes.

“These recommendations are workable, cost-effective, will reduce the burden on the Okinawan people, and will strengthen the American contribution to the security of the region,” said Sen. Jim Webb (D., Virginia), who co-authored the recommendations with Senators Carl Levin (D., Michigan) and John McCain (R., Arizona). These provisions were not included in similar legislation passed by the House on May 26. If the Senate passes the bill in 2011, conferees from both chambers will have to reconcile the differences, which could affect the Okinawa and Korea-related provisions.

China's Actions in the South

China Sea — On June 27, the Senate unanimously approved a [non-binding resolution](#) deploring the use of force by China in the South China Sea. It pledged continued efforts by the United States to facilitate a multilateral

and peaceful resolution to these disputes. It also supports US armed forces operations to uphold freedom of navigation in international waters and air space in the South China Sea.

US lawmakers took this action in response to the intimidating behavior of Chinese vessels in late May and early June toward Vietnamese ships operating within that nation's Exclusive Economic Zone. Co-sponsors also cited similar provocations toward Filipino and Japanese interests during the past year. The repeated and hostile nature of these episodes underscore the need for a multilateral approach to resolve these territorial disputes in a peaceful manner, they said.

Senators John Kerry (D., Massachusetts) and John McCain (R., Arizona) followed this up on July 13. In a letter to China's top foreign policy official, State Councilor Dai Bingguo, Kerry and McCain urged Beijing to make a more concerted effort to build trust and confidence with its neighbors by clarifying the nature of its claims in the South China Sea. They further proposed that China redouble its efforts within the China-ASEAN joint working group to implement the 2002 Declaration on Conduct of Parties in the South China Sea.

The resolution and the letter are not binding. However, they indicate how Congress may be inclined to shape

US policy through consultations with the executive branch or ultimately by means of binding legislation.

Sale of F-16 C/Ds to Taiwan

— The US government indicated in July that it would decide by October 1 whether to sell 66 new F-16 C/D model fighter aircraft to Taiwan. The government of Taiwan has been requesting this sale since 2007 on grounds that its existing fleet of F-16 A/B aircraft is outdated and in need of repair. At press time there were mixed reports about whether Washington — allegedly under pressure from Beijing — would end up denying Taipei's request for the advanced F-16C/D aircraft and agree only to upgrade the F-16 A/Bs owned by the Taiwanese air force.

The government of Taiwan and an unidentified high-ranking US official both denied that any such decision was made. Nevertheless, a report such as this likely will galvanize Taiwan's supporters on Capitol Hill when they return in September.

In recent months, they have been advocating vociferously for the F-16C/D sale. In May, some 47 senators sent a letter to President Obama urging him to sell the advanced aircraft to Taiwan on grounds that a failure to do so risked undermining the military balance in the Taiwan Strait. On August 1, 181 House members [followed suit](#) with a letter echoing many of the Senate's

arguments as well as noting that US manufacturing jobs could be lost if the sale did not go through.

But the main reason for selling Taiwan the new aircraft, according to advocates, is because the United States is obliged under the Taiwan Relations Act to make available to Taiwan arms to ensure that it can maintain a sufficient self-defense capability.

The Pentagon's [recent report](#), which states that the Chinese military “continues building capabilities aimed not only at Taiwan, but also to deter, delay or deny possible US or allied intervention in a cross-strait conflict,” likely will be cited by Taiwan's supporters as further reason for Washington to approve the sale.

China Currency Bill — In June, Rep. Mark Critz (D., Pennsylvania) filed a “discharge petition,” which would require House leaders to schedule a vote on the bill introduced by Rep. Sander Levin (D., Michigan). The Levin bill would treat “undervalued currencies” as export subsidies actionable under international trade rules. Critz has collected 173 of the 218 signatures needed to force a vote. Sen. Sherrod Brown (D., Ohio) also has suggested he would offer the Senate companion as an amendment to a bill both Houses likely will consider in September to extend the Trade Adjustment Assistance program.

USAPC To Host 20th PECC General Meeting

The US Asia Pacific Council (USAPC) will serve as the organizing body for the 20th General Meeting of the Pacific Economic Cooperation Council (PECC) hosted by the East-West Center.

It will be held from 8:00 a.m. to 5:00 p.m. on September 29 at The Madison Hotel, 1177 Fifteenth Street, NW, Washington, DC. A special kick-off **Dinner Program** will be held on September 28, 7:00 p.m. to 9:00 p.m., at the same venue. Delegates from PECC's 22 Member Committees from East and Southeast Asia, Australia, New Zealand, North America, and the Pacific Latin American countries are expected to participate.

Theme—The theme of the General Meeting, “State of the Region.” Senior US administration officials and prominent economic and political experts from the Asia-Pacific region will provide commentary on the following topics:

- Asia Pacific Regional Outlook: Overview and Forecast
- Risk to Robust Growth in the Asia Pacific Region
- The Western Hemisphere and Asia-Pacific Growth
- The Emerging Role of Bilateral Free Trade Deals in the Asia-Pacific
- The New Regional Energy Equation
- Regional Challenges in Structural Unemployment
- The Future of Regional Economic Cooperation: APEC, East Asian Summit, and ASEAN-Plus Three

KEY MEETINGS & EVENTS: SEPTEMBER–OCTOBER 2011:

- Ms. Barbara Weisel, Assistant US Trade Representative for Southeast Asia and the Pacific, leads the US delegation in the Trans-Pacific Partnership (TPP) negotiations, Chicago, Illinois, September 6–16.
- Deputy Secretary of State

Thomas R. Nides and Assistant Secretary of State for East Asia and the Pacific Kurt Campbell attend the Post-Forum Dialogue of the 40th Pacific Islands Forum, Auckland, New Zealand, September 6–9.

- Amb. Kurt Tong, US Senior Official for Asia Pacific Economic Cooperation (APEC), and Ms. Wendy Cutler, Assistant US Trade

Concurrent Sessions—The General Meeting also will feature special break-out sessions on such salient regional issues as:

- Enabling 21st Services in the Asia Pacific
- The Trans-Pacific Partnership: Views from the Inside and the Outside
 - Paths to Inclusive Growth



Speakers—**Hon. Kurt Campbell, Assistant Secretary of State for East Asian and Pacific Affairs**, will deliver the keynote address. **Hon. Francisco J. Sanchez, Under Secretary of Commerce for International Trade**, will address the luncheon program. **Deputy US Trade Representative Demetrios Marantis** will help to kick-off the General Meeting with remarks at a dinner program the evening before.

Use [this link](#) for further information about the Plenary Session and the Concurrent Sessions as well as the speakers.

Registration—[Registration](#) is open to the public on a first-come, first-served basis so seating is limited. Rates are: (1) Business, \$75/dinner, \$55/lunch, \$120 package; (2) non-profit/academia, \$45/dinner, \$35/lunch, \$70 package; and (3) USAPC Members, PECC Delegates, US Government, Embassies, Media, no charge.

Note: Everyone must register, whether or not you are charged a fee. The September 28 dinner program is off the record to the media.

Representative for Japan, Korea, and APEC Affairs, will attend the third APEC Senior Officials Meeting (SOM III), San Francisco, California, September 11–26.

- US Defense Secretary Leon Panetta and US Secretary of State Hillary Clinton will meet Australian Defense Minister Stephen Smith and Australian Foreign Minister Kevin Rudd for

the 26th annual Australia-United States Ministerial (AUSMIN), San Francisco, California, September 15..

- US Treasury Secretary Timothy Geithner and US Federal Reserve Chairman Ben Bernanke will attend the World Bank/IMF Annual Meeting, Washington, DC, September 23–25.

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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. He said there simply is not enough on the table to benefit US business.

Stokes: Yes, I agree. The problem with the accepted formu-

lation 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

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Stokes Interview

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 rethought. 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 US 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 US 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 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 during different economic times? It seems to me that you could bring all of those agreements to the WTO and stitch them together.

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

REGULATORY UPDATE

WTO Panel Rules Against China's Export Restraints on Industrial Raw Materials — Critics who charge that China has not upheld the commitments it made when it acceded to the World Trade Organization (WTO) in 2001 no doubt felt vindicated by the ruling on July 5 of a WTO dispute settlement panel.

The panel determined that China's restraints on exports of certain industrial raw materials violate WTO rules. China's actions were not justified on grounds that they conserved these resources, protected the environment, or guarded against supply shortages, according to the panel.

The raw materials at issue included bauxite, coke, fluor spar, magnesium, silicon carbide, silicon

metal, yellow phosphorus, and zinc, all of which serve as building blocks for the manufacture of steel, aluminum, and certain chemicals.

The panel's ruling stemmed from a request by the United States in June 2009 for dispute settlement consultations with China regarding these export restraints. Washington subsequently was joined by the European Union, Mexico, and 13 other countries. Specifically, the complainants challenged China's use of export quotas, price controls, and other restrictions, which had the effect of increasing the price of these raw materials on the world market while lowering the price for domestic companies.

That enabled Chinese manufacturers to produce lower-priced products from the raw materials,

which gave them an unfair advantage when competing against US and other producers. The restraints also created pressure on foreign producers to relocate to China, the panel maintained.

Not surprisingly, some of China's toughest critics in Congress applauded the WTO's ruling. Rep. Don Manzullo (R., Illinois), chairman of the House Foreign Affairs Subcommittee on Asia and the Pacific, noted that US initiation of the WTO suit is part of an ongoing and comprehensive effort to crack down on China's unfair trading practices, which also include currency manipulation and lax enforcement of intellectual property protections.

WTO Panel Rules Against Philippine Excise Taxes on

Distilled Spirits — Washington also prevailed in another WTO dispute with an Asian trading partner. On August 15, a WTO dispute settlement determined that Philippine excise taxes on imported distilled spirits, such as whiskey and gin, are discriminatory and inconsistent with WTO rules.

US Trade Representative Ron Kirk remarked that the WTO ruling "demonstrates the commitment of the United States to combat trade barriers wherever they occur," suggesting that China is not necessarily being singled out for legal recourse in the WTO.

The United States is one of the largest exporters of spirits. In the Philippines, US imports were taxed approximately 10 to 40 times higher than domestic products.

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 you’re 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 might say, “Look, the multilateral sys-

tem 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. ♦

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KORUS FTA Poised For Approval By Congress

competition. Although the TAA program is authorized through February 12, 2012, Congress significantly expanded it as part of the 2009 post-financial crisis stimulus package to cover services workers among other additions (see Interview). Those expanded features lapsed earlier this year. The administration and its Democratic allies in Congress have argued that fairness — particularly in a still uncertain economy — warranted that a “robust renewal of TAA consistent with the goals of the 2009 law” accompany “forward movement” on the three FTAs.

Republican Response — Republican leaders on trade policy objected to the TAA/FTA linkage. They evidently were concerned that any “packaging” of the TAA and FTA bills risked sinking the much-desired trade accords — particularly in the Republican-controlled House — because of the objections of many members to the costs of the worker assistance program.

In late July, however, Sen. Rob Portman (R., Ohio), a former US Trade Representative, helped to nudge both sides toward compromise. Portman and eleven of his Senate Republican colleagues sent a letter to President Obama in which they urged him to send the three FTAs to Capitol Hill as soon as possible. Importantly, they pledged to support a separate TAA bill that incorporated reforms aimed at limiting certain aspects of the program and reining in overall costs. These changes were negotiated by the White House, Senate Finance Committee Chairman Max Baucus (D., Montana), and House Ways and Means Committee Chairman Dave Camp (R., Michigan) in late June.

Legislative Vehicle — Roughly two weeks later, Senate

Majority Leader Harry Reid (D., Nevada) and Senate Minority Leader Mitch McConnell (R., Kentucky) hammered out a deal that will enable the Senate to first take up a separate TAA bill. Experts say Senate lawmakers likely will use a House-passed trade measure as a vehicle for language extending TAA benefits in line with the June compromise. The Senate-amended bill then would be sent back to the House. House Ways and Means Chairman Dave Camp (R., Michigan) has suggested that the lower chamber, in turn, would vote on four separate bills — the KORUS, Columbia, and Panama FTAs plus the TAA extension — in quick succession. The House-passed FTAs then would go before the Senate, where experts expect timely approval.

Scheduling Uncertainties — House Speaker John Boehner (R., Ohio) praised the deal, saying the Senate leaders had “cleared an important hurdle.” He said he looked forward to the House “passing the FTAs in tandem with separate consideration of the TAA legislation as soon as possible.”

Some Congress-watchers offer a more cautious outlook, however. They suggest that the Senate-House-Senate legislative procedure may be delayed or otherwise complicated by budget exigencies. The current fiscal year ends on September 30, so Congress will have to approve a Continuing Resolution (CR) that would keep the government running beyond October 1. (None of the twelve FY2012 appropriations bills have been enacted yet.) Thus, the “floor time” required to consider the FY2012 CR — particularly in view of the paralyzing nature of the budget debates to date — may not allow for timely action on the FTAs and TAA legislation at least in September. ♦



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