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U.S. Trade Policy

Will new regional trade agreements create American jobs?

After more than four years without pushing for new free-trade agreements, President Obama has decided the time is ripe for America to again push for a more liberalized international trading system. The United States is negotiating two massive regional free-trade pacts — one with 11 Asian and Pacific Rim countries and the other with the 28-member European Union. Together, the 40 countries comprise the lion's share of the world economy. Meanwhile, the World Trade Organization is languishing on the sidelines as negotiations over a slew of new regional agreements overshadow the WTO's decade-long effort to broker a single global trade agreement. Hopes for the regional pacts have reignited debates on whether free trade creates or costs U.S. jobs and helps or hurts human rights. Looming over the debates is booming China, whose conglomerates — most owned and subsidized by the state — have conquered markets in both developing and developed nations.

A cargo container is transferred from a ship to a truck in Miami on Aug. 8, 2013. The Obama administration is negotiating two big trade pacts it hopes will create U.S. jobs by expanding exports.

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U.S. Trade Policy

By Brian Beary

The Issues

For decades, the European Union (EU) banned imports of American hormone-treated beef because of concern about the safety of growth hormones to humans.

The U.S. government complained to the World Trade Organization (WTO) that the ban violated free-trade rules because the EU could not prove the hormones were harmful to consumers. The WTO agreed.

To settle the dispute, the EU said it would continue to ban imports of hormone-treated beef, but agreed to allow up to 45,000 metric tons of hormone-free U.S. beef to enter its 28 member countries duty-free each year — a special exception available only to American beef exporters. The United States then lifted retaliatory tariffs it had imposed on EU products.

Since the compromise was reached, U.S. shipments of non-hormone-treated beef to the EU have soared to $200 million this year — three times what they were before the deal was struck in 2009. The agreement, originally scheduled to expire in August, was extended last month for two more years. [1]

"The duty-free quota represents a compromise that allows U.S. beef to enter the market," says Joe Schuele, director of communications at the Denver-based U.S. Meat Export Federation, but "we still maintain that the hormone ban has no scientific basis."

Such agreements show "what we can accomplish with practical, problem-solving approaches to trade barriers," U.S. Trade Representative (USTR) Michael Froman said. [2]

Getty Images/Bloomberg/Junko Kimura

Farmers in Tokyo protest Japan's participation in negotiations over the U.S.-proposed Trans-Pacific Partnership on Oct. 26, 2011. Japanese farmers say the pact would unfairly benefit U.S. exporters and allow exports of genetically modified foods. President Obama also is seeking passage of a free-trade agreement with the 28-member European Union. If passed, it would be the biggest bilateral trade pact ever, affecting 40 percent of the global economy.

Currently, American and European trade negotiators are focusing on a much bigger trade deal. On July 8, they launched talks for a comprehensive bilateral free-trade agreement, called the Transatlantic Trade and Investment Partnership (TTIP), between the United States and the 28-member European Union. If they succeed, it would be the biggest bilateral free-trade pact ever, affecting 40 percent of the global economy. It would also breathe new life into the U.S.-Europe relationship, which has flagged as both sides have nervously eyed the faster-growing economies in Asia. [3]

Meanwhile, the United States since 2009 has been negotiating the Trans-Pacific Partnership (TPP), a multilateral trade pact among the United States and 11 Asian and Pacific nations. TPP is scheduled to be completed by the end of this year. (The other participants are Australia, Brunei, Chile, Canada, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam.)

President Obama has two primary motives in advancing such agreements: to create U.S. jobs by expanding exports and to steer global trade rules in ways favorable to the United States and other free-market economies. With the U.S. economy finally getting some momentum after the 2007-09 financial crisis, Obama believes the time is ripe for further market openings.

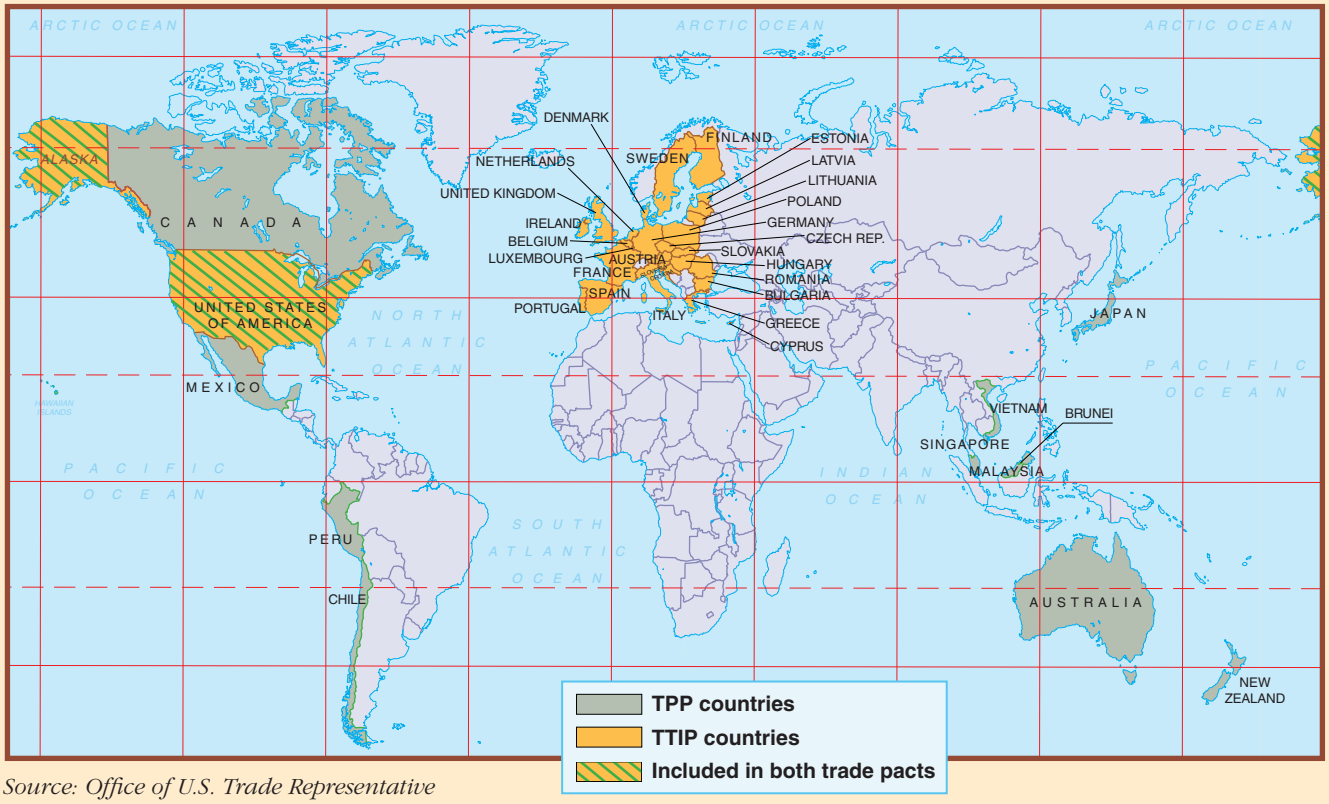
John Murphy, vice president for international affairs at the U.S. Chamber of Commerce, says 38 million American jobs depend on trade and that "the potential to create more jobs through trade is huge."

The two sweeping trade pacts could also help the United States compete with China, whose state-sponsored capitalism has made it a global economic superpower. [4] The Chinese government's propensity to provide cheap government loans for exporters, subsidies to develop new technologies and a low currency exchange rate have private sector-dominated countries such as the United States crying foul, alleging China has created an unlevel in-

Proposed Trade Pacts Cover 40 Countries

The United States and the 28-member European Union began talks on July 8 on a comprehensive free-trade agreement, the Transatlantic Trade and Investment Partnership (TTIP). If successful, the treaty would be the largest bilateral free-trade pact in the world, affecting 40 percent of the global economy. Meanwhile, the United States and 11 Asian and Pacific Rim countries have been negotiating since 2009 on a multilateral trade pact known as the Trans-Pacific Partnership (TPP). The Obama administration says the two treaties would create American jobs and help the United States compete with China, whose state-sponsored capitalism has made it a global economic superpower.

Countries Participating in Two Major Trade Pacts



Source: Office of U.S. Trade Representative

ternational playing field. [5] As a result, China's state-owned enterprises distort international trade by giving unfair advantage to the subsidized firms, critics say.

Amid these developments, the 18-year-old World Trade Organization is struggling to remain relevant. The WTO was created in 1995 as the primary forum for liberalizing trade worldwide by reducing barriers to free trade and arbitrating trade disputes. But the WTO has taken a battering since its flagship project — a new round of trade negotiations launched in Doha, Qatar, in 2001 — died a slow and painful death. (*See sidebar, p. 778.*)

As the WTO floundered, countries have rushed to conclude bilateral and regional trade deals — more than 250 since the WTO was created. [6] This year alone, accords have been completed between Canada and Jordan, Chile and Malaysia and the EU and Central America. [7]

This new "competitive liberalism" approach to trade — in which countries compete with one another to conclude the most advantageous trade deals — makes sense in today's economy, where products are assembled in multiple countries, according to Ari Van Assche, a professor of international business at HEC Montréal, a major Canadian business school. The new trade deals tackle issues such as removing restrictions on foreign investment, harmonizing regulations and scrapping tariffs on imported intermediate goods (those midway along the production process). [8]

Carla Hills, who served as U.S. trade representative for President George H. W. Bush from 1989-1993, charges that Obama did not embrace this new reality as enthusiastically as he should have in his first term. "We [the United States] were sitting on the sidelines for three years," she said. "Now we are playing catch-up, and we are choking on the issues." [9]

Obama initially was reluctant to negotiate new trade agreements, in part because of rising resentment toward such treaties that began in the 1990s. Many Americans blamed the 1994 North American Free Trade Agreement (NAFTA), which eliminated trade barriers among the U.S., Canada and Mexico, for the outsourcing of manufacturing jobs from the United States to lower-wage Mexico. That trade agreement, negotiated behind closed doors as are most trade deals, caused a surge of public anger in the United States, especially after the public learned more about its contents when Congress debated whether to ratify it or not.

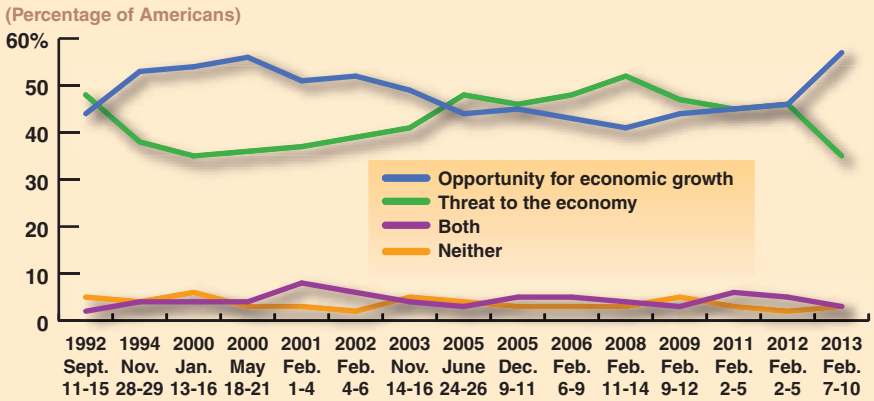
A recent poll suggests Americans are more receptive to the European trade talks, with 58 percent supporting increased trade with the EU. Experts attribute that attitude to the fact that both the U.S. and EU have similar wage levels and worker protection rules, making it less likely the agreement would trigger outsourcing in either direction. [10] Public sentiment about the trans-Pacific treaty remains largely untested. [11]

In addition, experts say, the openness with which the two treaties are being negotiated could help to build public support. But that support could plummet if the new deals are seen as being cooked up secretly, NAFTA-style. Consequently, the administration threw open at least some of the doors to the talks, inviting more than 100 stakeholders, journalists and negotiators to a three-hour networking event in July 2013 at the White House Conference Center during the opening round of the trans-Atlantic talks.

Most Americans Back Foreign Trade

Nearly 60 percent of Americans think foreign trade will help the economy. In 2011 and 2012, as the economy struggled to recover from the recent steep recession, the public was evenly divided on trade. Views on trade have largely tracked the status of the U.S. economy over the past decade, with Americans more likely to see it as an economic opportunity from the robust mid-1990s through the early 2000s and as a threat during the worst years of the recession.

"Do you see foreign trade more as an opportunity for economic growth through increased U.S. exports or a threat to the economy from foreign imports?"



Source: "Americans Shift to More Positive View of Foreign Trade," Gallup, Feb. 28, 2013, www.gallup.com/poll/160748/americans-shift-positive-view-foreign-trade.aspx

Image aside, a big question still haunts the talks: Will the trade deals create jobs for Americans? In the 1950s and '60s, the U.S. economy clearly benefitted from free trade. But since then it seems that other countries — Japan in the 1970s and '80s, and China in the 1990s and 2000s — have benefitted more.

Supporters of the new agreements claim the pendulum is swinging back in favor of the United States. After a decade in decline, U.S. manufacturing is slowly reviving, with 500,000 jobs added in the past three years, compared with 5 million jobs lost between 2000 and 2009. [12]

On the downside, the U.S. trade deficit — created when imports exceed exports, usually resulting in lost domestic manufacturing jobs — has mushroomed since the 1990s, reaching $535 billion in 2012. [13]

But that figure can be misleading, noted Marc Levinson, manager for transportation and industry analysis at the nonpartisan Congressional Research Service. [14] Trade statistics are "increasingly problematic," he said, because they take insufficient account of the globalized nature of manufacturing. For example, if someone imports a computer, it counts 100 percent as an import even if it contains electronic chips patented in the United States, deriving part of its value from inside the country, he explained.

Any U.S. trade deal will have to be approved by Congress, where attitudes about trade are mixed. Rep. Ted Poe, R-Texas, said the expansion of exports expected under the trans-Pacific trade

deal would be good news back home in Houston, a major export hub.

Rep. Brad Sherman, D-Calif., struck a more critical note, however. "We have been traveling this road for 20 years, and we [still] have the largest trade deficit in the world," he said, adding that "the definition of insanity is doing the same thing over and over again and expecting another result."

As lawmakers, trade negotiators, labor leaders and business executives discuss the pending trade agreements, here are some of the key questions being debated:

Will expanding free trade create jobs for Americans?

Experts generally agree free-trade agreements expand trade, but stark disagreement persists about whether that translates into more jobs at home.

Both the European and Pacific trade agreements will find "new markets for growth" of American exports, creating jobs in the United States, says Joshua Meltzer, a fellow in global economy and development at the Brookings Institution, a Washington think tank. He believes the trans-Pacific trade deal would have greater potential than the European pact to create jobs here because the Asia-Pacific markets are newer, largely unexploited territories for American companies.

Carol Guthrie, spokeswoman at the Office of the U.S. Trade Representative, estimates that each $1 billion in additional exports supports more than 5,000 jobs. The trans-Atlantic trade pact (TTIP) "will serve to expand our exports to the EU by further lowering tariffs and removing red tape and bringing our regulatory environments closer together," she says. The Pacific treaty, she says, will "increase U.S. involvement in supply chains in the competitive markets of the Asia-Pacific, lowering tariffs and creating rules to make sure that American firms and workers are not undercut or disadvantaged when doing business in the region."

The EU's trade spokesman, John Clancy, says, "It is evident that the TTIP will create jobs." He cited a study showing that €119 billion ($157 billion) is expected to be added to the EU economy just by eliminating tariff and regulatory barriers. "We are convinced the U.S.-EU trade pact will be a win-win deal in terms of jobs." [15]

Indeed, there seems to be consensus among experts that additional jobs created by the trans-Atlantic pact would benefit both economies, because they both have similar wage levels and rules for protecting workers and investors.

But Lori Wallach, director of Global Trade Watch, a program of the Washington-based consumer advocacy group Public Citizen, thinks neither agreement will help the U.S. job market. "We are replicating a model of the last 20 years that has led to our trade deficit exploding and has cost us 5 million manufacturing jobs," she says. "That's 25 percent of total U.S. manufacturing jobs."

Citing the NAFTA experience, which she believes led to a hemorrhaging of U.S. manufacturing jobs, she says today's free-trade agreements invariably bolster the rights of investors, who often are given incentives to relocate jobs abroad. In NAFTA's case, those jobs went to Canada and Mexico, she says. The agreements also will cost service-sector jobs, she says, through clauses that guarantee the free movement of data, which effectively bar countries from requiring that computer servers be located in their home territories. That leads to offshoring of engineering, actuarial and computer programming services, she says.

With average Vietnamese wages, for example, only about a third of Chinese pay levels, the offshoring problem will be especially relevant to the trans-Pacific agreement, Wallach says. She says trade accords should stop establishing dispute panels presided over by private-sector trade lawyers because such panels invariably side with investors, to the detriment of working conditions and human rights.

California Rep. Sherman said the growing trade deficit has displaced 2.8 million American jobs in recent years. In 2012, nearly two decades after NAFTA became effective, the United States ran a $31 billion goods trade deficit with Canada and a $62 billion goods trade deficit with Mexico, compared to a deficit before NAFTA of $10.8 billion with Canada and a surplus of $1.7 billion with Mexico. [16] And just a year after a U.S.-South Korea free-trade agreement entered into force, the United States experienced its highest-ever trade deficit with South Korea — $2.5 billion in May 2013. [17]

However, Ed Gerwin, a free-trade advocate from Third Way, a conservative Washington think tank, pointed out that oil imports, which comprise about a third of all imports, are the main contributor to the U.S. trade deficit. The United States actually runs a trade surplus in manufactured and agricultural goods, Gerwin noted. [18]

But Celeste Drake, a trade and globalization specialist at the AFL-CIO, the umbrella federation representing a large sector of U.S. organized labor, said NAFTA has cost the United States 700,000 jobs, China's accession in 2001 to the WTO cost 2.7 million U.S. jobs, and the U.S.-Korea deal 40,000 jobs, so far. [19]

"We are concerned that TPP [the Trans-Pacific Partnership] could repeat the mistakes made with NAFTA," Drake said, citing for example, Japan's refusal to open its car sector to foreign competition. To prevent negative impacts, Drake recommends inserting provisions such as retaining "buy American" government procurement regulations, opening markets only on a reciprocal basis and preventing currency manipulation.

"The U.S. cannot afford another trade agreement that hollows out our manufacturing base and adds to our substantial trade deficit," she concluded.

Can U.S. firms compete with state-owned companies?

In recent years Chinese state-owned banks have provided extremely generous loans to huge state-owned companies on terms that no commercial bank would grant. This oft-criticized practice gives Chinese companies an unfair advantage when they compete with private foreign companies in international trade, say competing companies and their governments.

And that is not a small problem: In China, the world's second-biggest economy after the United States, the government owns 37 of the largest 40 companies. Such enterprises not only benefit from cheap loans but often enjoy monopolies in their home markets, making them extremely hard for private companies to compete against in the global marketplace.

The WTO has been ill-equipped to referee disputes between countries on this issue because its rules were crafted in the 1990s, before China's meteoric rise. (*See "At Issue," p. 781.*)

"It's a real problem," U.S. Trade Representative Froman has said. While every country has some companies that are state owned or operated in some form, he said, the challenge is to prevent them from having a distorting impact on the market when they compete with private companies in selling their products or services in the international market. [20]

The Chamber of Commerce's Murphy calls the rise of state capitalism and state-owned enterprises "increasingly worrisome" and insists it be addressed in the trans-Pacific trade pact.

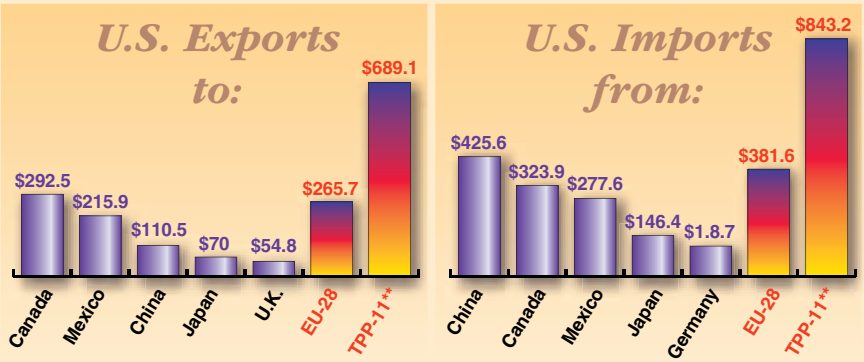
Robert Zoellick, former U.S. trade representative (2001-2005) and president of the World Bank (2007-2012), has suggested that the trans-Pacific pact be used as leverage on this issue, given that China is not part of the pact yet but might like to join. [21]

However, some believe complaints about state-owned companies killing off private competition are overstated.

Top U.S. Trading Partners: Canada, Mexico, China

Canada and Mexico spent more buying U.S. products in 2012 than any other countries, but the United States spent more importing goods from China and Canada than from anywhere else. The value of U.S. goods sold to the 11 countries negotiating the Trans-Pacific Partnership (TPP) trade agreement with the United States was more than five times the amount the United States sold to China in 2012.

Top U.S. Trade Partners, by Total Value of Goods,* 2012
(in $ billions)



** Does not include trade in services or investments.*

*** Reflects totals for the 11 countries negotiating with the United States to form the Trans-Pacific Partnership trade pact. The countriesare Australia, Brunei, Chile, Canada, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam.*

Source: "Top U.S. Trade Partners," Foreign Trade Division, Census Bureau, U.S. Department of Commerce, www.trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_003364.pdf

Michael Blanding, a Boston-based investigative journalist and author, noted that the number of companies controlled or owned by governments is declining — in China, as well as in Russia, Australia, Canada, France and Japan. It is becoming more common, he wrote, for governments to keep a minority share in companies. [22]

But Heriberto Araújo and Juan Pablo Cardenal, China-based journalists who have written a book on the subject, contend that China's command-and-control industrial policy enabled it in 2012 to overtake the United States and become the world's largest trading nation (as measured by the sum of exports and imports). [23] The Chinese government also now controls oil and gas pipelines from Turkmenistan to China and from South Sudan to the Red Sea. The government-owned Chinese firm Cosco manages the main cargo terminal in Greece's largest port, Piraeus; and a Chinese sovereign wealth fund, C.I.C., has a 10 percent stake in London's Heathrow Airport. [24]

Beijing's reach even extends to the Arctic. Greenland has awarded a Chinese firm the contract to exploit its enormous mining resources — using Chinese workers who will earn less than the minimum wage — because no one else could match China's investment offer. [25]

Change may be on the horizon. Brookings' Meltzer believes China is in the process of curbing its subsidization of domestic industry. "China has a mixed economic model," he says, meaning that it is partly free-market oriented and partly state-controlled. "And Chinese officials

U.S.-European Pact Would Be World's Largest

The Transatlantic Trade and Investment Partnership (TTIP) between the United States and the 28-member European Union would be the biggest bilateral free-trade pact in the world, affecting 40 percent of the global economy. The Trans-Pacific Partnership (TPP) being negotiated among the United States and 11 other Asian and Pacific Rim countries would dwarf the 1994 North American Free Trade Agreement (NAFTA) among the United States, Canada and Mexico.

Comparison of Trade Pacts, by Population and GDP

Trade Agreement	No. of Countries	Population	GDP
TTIP	29	821 million	$33 trillion
TPP	12	792 million	$28 trillion
NAFTA	3	465 million	$19 trillion

Sources: Brock R. Williams, "Trans-Pacific Partnership (TPP) Countries: Comparative Trade and Economic Analysis," Congressional Research Service, June 10, 2013, p. 5; World Economic Outlook, International Monetary Fund, April 2013; CIA World Factbook

are discussing reform to redress the imbalance created by relying too much on government investment and not enough on private consumption to grow the economy, Meltzer says.

According to the EU's Clancy, the Trans-Pacific Partnership could be a catalyst for such reform, while the U.S.-EU trade pact can also serve as "a laboratory" for how to deal with the issue. He hopes the EU and United States can "define and further develop the international rule book" on state-owned enterprises.

The first task will be to define what a state-owned enterprise is, he says, and then negotiators will have to agree on what constitutes noncompetitive behavior. As these discussions lead to common understandings, it could help the WTO develop fair rules for global trade involving state-owned and subsidized companies, he believes.

Something needs to be done, argued the AFL-CIO's Drake, because under existing trade law the United States cannot take action against a foreign state-owned enterprise that uses government subsidies to establish a factory in the United States and then produces products below the cost of a U.S. firm. For instance, she said, a Chinese state-owned company, Tianjin Pipe, recently broke ground on a $1 billion facility in Texas to produce seamless pipe to transport oil and gas. [26]

But as U.S. Sen. Jeff Flake, R-Ariz., notes, the United States provides farmers billions of dollars a year in government subsidies. In fact, he said, for the past three years the United States has spent $150 million a year subsidizing Brazilian cotton farmers to comply with a WTO ruling requiring the United States to either stop subsidizing American farmers or subsidize Brazilians farmers as well. [27]

Thus, Drake predicted, there would be "strong resistance" among the other Pacific negotiating partners to including a provision in the treaty allowing countries to enact laws aimed at blocking foreign state-owned companies from killing off domestic competition. [28]

Does expanding free trade help promote human rights and democracy?

Proponents of free trade have often argued that opening up global markets eventually leads to democracy. When a country opens up to outside manufacturers, their argument goes, prices for goods and commodities fall, leading to higher living standards. As citizens become wealthier they begin to demand greater personal freedom and push for an end to human rights abuses.

But experts disagree over what impact the European and Pacific regional trade agreements will have on human rights and democracy in the real world.

In the case of the European pact, it is less of an issue because the two negotiating partners represent mostly mature democracies with relatively high rankings on human rights.

Within the trans-Pacific pact, however, one of the negotiating partners is Vietnam, which regularly is accused of using child labor and paying sub-poverty wages in its textile sector, which employs 2 million people. In addition, the nongovernmental watchdog group Worker Rights Consortium has reported that some factory owners, to avoid paying maternity benefits, force female employees to sign contracts in which they agree not to become pregnant. [29] The average wage for workers in Vietnam's footwear industry is $124 a month, well below the estimated $220 it takes to buy food for a family of three; the government prosecutes those who try to form independent labor unions. [30]

"Vietnam is the dictatorship of the proletariat," said U.S. Rep. Dana Rohrabacher, a conservative Republican from California. He doubts Vietnam would become freer if the United States traded with it more, adding, "It didn't work with China." [31]

Free-trade critics such as Rohrabacher complain that China's trade-fueled economic prosperity has led to little progress toward democracy.

CNN political analyst Fareed Zakaria also pointed out recently that China's authoritarian capitalist model has enabled it to allocate money earned from its massive trade surplus for long-term

domestic infrastructure projects. Were China a democracy beholden to voters, he argued, it would have had to use more of that money to subsidize consumer goods. [32]

But Brookings' Meltzer predicts that democracy will come later to China, as higher living standards brought about by increased trade gradually foment greater popular demand for freedom.

USTR spokeswoman Guthrie says the Pacific and European trade pacts will address "many trade-related priorities such as development, transparency, workers' rights and protections, environmental protection and conservation."

And the AFL-CIO's Drake noted that the United States obtained some commitments on improved labor rights in previous trade pacts and that some of those commitments have become progressively stronger. For example, she said, if U.S. negotiators use the Peruvian free-trade agreement signed in 2006 as a floor of minimum standards, the trans-Pacific pact could become a vehicle for strengthening workers' rights. [33]

However, labor rights in Mexico deteriorated after passage of NAFTA, she argued, and an action plan on labor enshrined in the 2012 U.S.-Colombia free-trade agreement "is not making much difference on the ground." [34]

Public Citizen's Wallach pinpoints another problem with free-trade agreements: They take decisions out of the hands of elected officials by locking in treaties that do not allow lawmakers to change a word. For instance, the European Parliament in July 2012 rejected an Anti-Counterfeiting Trade Agreement (ACTA), approved earlier by the WTO, because EU lawmakers were excluded from the talks. Yet, Wallach predicts that much of ACTA's substance will be inserted into the U.S.-EU trade pact.

EU trade spokesman Clancy says negotiators have learned from the ACTA experience and "the aim is to be more transparent as we work through the U.S.-EU areement. For example, the EU side has published its initial position papers on different areas, such as services and investment."

Wallach also worries that investor-state dispute settlement panels, which have been suggested for the trans-Pacific and European pacts, would have a detrimental impact on the environment and conditions for workers. Judges are replaced by trade lawyers on the panels, which rule on legal battles between governments and investors over such issues as local minimum-wage laws and bans on mining toxic chemicals. [35] Because of who presides over them, the dispute settlement panels' decisions often are skewed to favor investors over governments, argues Public Citizen, a consumer group that has compiled a database of such cases brought under NAFTA. The suits include cases filed by a tobacco manufacturer, a wind energy firm, a high-fructose corn syrup producer and a metal smelter. In the 80 documented cases, governments ended up paying $405.4 million to investors in compensation settlements for lost profits arising from local laws that restrict foreign investment. [36]

Furthermore, says Wallach, even if the investor loses a case, the government — and thus the taxpayers — ends up paying huge legal fees. As a result, sometimes the mere threat of an investor filing such a case leads a government to ditch a planned law, Wallach says. ■

BACKGROUND

Evolving Trade Policy

When the United States was founded, mercantilism was the prevailing trade philosophy. [37]

Conceived in Europe in the late Middle Ages, mercantilism held that exports were good because they brought gold and silver into a country, while imports were bad because they did not add value to the economy. Characterized by high import duties, mercantilism encouraged governments to control foreign trade in order to promote national security and motivated much of Europe's colonial expansion during the 16th to 18th centuries. For example, the state-sponsored Dutch East India Co., which greatly increased Dutch trade with modern-day Indonesia in the 1600s and 1700s, helped the Netherlands accumulate great wealth.

By the late 1700s, however, newer theories about free trade, developed by Scottish economic philosophers David Hume and Adam Smith, were beginning to supplant mercantilism. Hume and Smith maintained that private enterprise paved the way toward more freedom and wealth and that it was better for states if their neighbors also became wealthy trading nations. Their ideas were slowly distilled into concrete policies in the 1800s, and governments began to reduce tariffs — notably the United Kingdom repealed duties on grain imports in 1846.

The United States, from its first piece of trade legislation — the 1789 Tariff Act under which relatively mild tariffs were introduced — pursued a mixed approach on trade policy. The more industrialized North supported tariffs to promote domestic manufacturing, while the agricultural South pushed for eliminating tariffs to encourage cotton, rice and tobacco exports. The North-South split on trade helped precipitate the Civil War (1861-1865).

By the late 1800s, with U.S. industry booming, an era of high tariffs was dawning. Custom duties averaged 57 percent in 1897 and accounted for half of all federal revenues. After briefly declining in the early 1900s, tariff rates rose rapidly again during World War I (1914-18) and throughout the 1920s, when depressed farm prices created protectionist political pressures.

Throughout this period, the Republicans, the dominant party in the North, pushed protectionist measures in Con-

Getty Images/Bloomberg/Mark Elias

South Korean Kias are unloaded in Brunswick, Ga., on, Aug. 16, 2013. While the United States continues to import toys, cars and steel from big Asian producers, it also is expanding market share in fields such as financial services, software and engineering. However, the U.S. is still running a $414 billion deficit in the amount of goods imported vs. those exported.

gress and fought fierce battles with the more free-trade-oriented Southern Democrats. The last time Congress imposed import duties was in 1930 through the Smoot-Hawley Tariff Act, which established tariffs averaging 59 percent on some 20,000 products. Europe retaliated by raising its tariffs on U.S. products, causing world trade to decline to a third of its 1929 level. [38] This trade war helped deepen the Great Depression in the early 1930s, as U.S. exports and imports slumped to early 1900 levels.

Since that economic nadir, every American president has resisted protectionism. President Franklin Delano Roosevelt pushed the Reciprocal Trade Agreements Act through Congress in 1934, which transferred authority for setting tariff rates from Congress to the president.

During the 1930s, the United States passed important labor legislation, such as the 1935 National Labor Relations Act, which protected the right of collective bargaining, and the 1938 Fair Labor Standards Act, which forbade employment of children under 16 years of age during school hours and established a minimum wage. During World War II (1939-'45), trade flows were determined more by military alliances than by commercial factors.

Eliminating Tariffs

In 1946, as Europe and East Asia lay in ruins, the new U.S. president, Harry S. Truman, threw his weight behind an international conference convened in Geneva to expand world trade. It led to the signing of the General Agreement on Tariffs and Trade (GATT) by 23 countries on Oct. 30, 1947.

Over the next half-century, GATT helped to reduce tariffs on manufactured goods worldwide. It also established international rules imposing so-called anti-dumping duties on imports to protect domestic industries. "Dumping" is a predatory pricing policy in which manufacturers attempt to put competitors out of business by selling their products at below cost. Under GATT, trade disputes could be mediated, but there was no mechanism for enforcing GATT agreements.

Two other international institutions were conceived at the same time to help forge a more liberalized economic order: the International Monetary Fund (IMF) to regulate exchange rates and the World Bank to provide loans to developing countries. [39]

GATT made progress during "rounds" of negotiations to cut tariffs. Notable successes were the Kennedy Round (1962-1967), named after President John F. Kennedy, and the Tokyo Round (1973 to 1979).

By the late 1960s, however, protectionist sentiment was on the rise again in the United States after the stellar postwar recovery of Western Europe and Japan made them serious trade rivals, notably in the auto and steel sectors, where they were begin-

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Chronology

1776-1934

U.S. gains independence from Great Britain, emerges as the world's leading trading nation.

1789
U.S. Tariff Act imposes relatively mild tariffs on imports.

1846
United Kingdom repeals duties on food imports, signaling the rise of free trade.

1861
U.S. Civil War begins, pitting industrial North against agricultural South on slavery as well as divisions over trade policy.

1930
U.S. Smoot-Hawley Tariff Act imposes tariffs averaging 59 percent on 20,000 products. World trade slows, deepening the Great Depression.

1934
Reciprocal Trade Agreement Act lets president set tariff rates.

1947-1993

World trade becomes freer as tariffs are reduced, eliminated.

1947
Twenty-three countries sign General Agreement on Tariffs and Trade (GATT), aiming to boost trade by reducing tariffs. It eventually achieves its mission, while expanding membership.

1974
Trade Act gives president so-called fast-track authority to submit trade agreements to Congress for a single up or down vote.

1978
China's new leader, Deng Xiaoping, opens his country of some 1 billion people to world markets.

1991
After Soviet Union collapses, Russia and former communist-bloc countries embrace free-market capitalism.

1993
President Bill Clinton signs North American Free Trade Agreement (NAFTA) into law, liberalizing trade among U.S., Canada and Mexico.

1995-2008

A backlash against free trade develops in Europe and the United States as companies outsource jobs to lower-wage economies in Asia and Latin America.

1995
GATT is reconstituted into the World Trade Organization (WTO).

1999
At a November meeting in Seattle, WTO members fail to agree to new round of trade-liberalization talks after the city is rocked by protests by grassroots organizations. Talks finally begin in Doha, Qatar, in 2001.

2001
China joins WTO, gaining greater access to global markets, which it fully exploits to become the world's second-largest economy after the United States.

2008
The financial crisis and a deep recession create strong protectionist pressures. After years of lackluster progress, WTO's Doha Round of talks collapses.

2009-Present

Bilateral and regional free-trade pacts become more popular as the WTO fails to deliver a new world-trade agreement.

2009
President Obama signs off on an $80 billion government bailout and restructuring package to prevent the U.S. auto industry from bankruptcy.

2010
U.S. participates in talks for a massive regional trade agreement, the Trans-Pacific Partnership, with 11 Asian and Pacific Rim nations.

2011
Congress approves free-trade agreements with Colombia, Panama and South Korea after Obama finally submits them, marking the end of a four-year gap in promoting new trade agreements.

2012
Swayed by a grassroots campaign against it, European Parliament rejects an Anti-Counterfeiting Trade Agreement (ACTA) negotiated at the WTO by a group of mostly advanced economies that includes the United States.

2013
United States and European Union begin talks on the Transatlantic Trade and Investment Partnership. . . . Japan, the world's third-largest economy, joins in the Trans-Pacific Partnership free-trade talks, scheduled to conclude in December. . . . Brazilian Roberto Azevêdo becomes the first Latin American head of the WTO.

2014
U.S.-EU trade pact scheduled to be completed in October.

Tiny Nanoparticles Have Big Trade Implications

U.S. and EU differ on labeling nanoproducts.

Tiny particles and machines — so small they are invisible to the naked eye — may trigger a dustup in U.S.-European trade relations.

Nanotechnology — the science of creating molecule-size machines and materials — involves the use of particles less than 100 nanometers long, or 80,000 times smaller than the width of a human hair.*

Nanoparticles are used in foods, beverages, toys, electrical appliances, beauty products and a wide range of other consumer and industrial products. For instance, nanotitanium makes sunscreen invisible when applied to the skin, nanocrystals enhance the clarity of liquid crystal display screens and silver ions kill microbes and control odor in washing machines.

Such nanoproducts are made by U.S. and foreign manufacturers and traded worldwide. But the United States and European Union (EU) differ on how to regulate them, presenting a dilemma for trade negotiators.

The nanotech industry has been growing rapidly, especially in the past decade. The United States has been the market leader, according to Hilary Flynn, a senior analyst at Lux Research, a Boston-based research and consultancy firm specializing in emerging technologies, with sales of nano-enabled products worldwide projected to soar to $650 billion in 2015, up from $10 billion in 2004. [1] Flynn estimates that about 540,000 U.S. manufacturing jobs depended on nanotechnology in 2010, a figure she expects to grow to 3.1 million by 2015. [2]

And Europe is catching up fast, with revenue from nano-enabled products projected to surpass the United States by 2015. The number of products containing nanomaterials sold in the European Union reached 475 in 2010, up 300 percent from a year earlier, according to the European Consumers' Organisation, a Brussels-based group of 41 independent consumer organizations from 31 European countries. [3] Asian and Pacific countries also are beginning to develop nanotech products.

However, some scientists warn that nanotechnology poses environmental and health risks, especially for workers or consumers breathing in the tiny particles. Consumer groups want products containing nanotech ingredients regulated and labeled, even though the products themselves may already be regulated. [4] Without regulation, consumers become the industry's guinea pigs, the groups say.

"[H]undreds of products [are] on sale on the European market containing nanomaterials without any assessments . . . of the risks that these may pose to public health," said Monique Goyens, managing director of the European Consumers' Organisation. "We need to put an end to this public-safety 'Russian roulette.' " [5]

The U.S. Food and Drug Administration (FDA) regulates nano-ingredients contained in food, cosmetics and veterinary and tobacco products, while the U.S. Environmental Protection Agency (EPA) has jurisdiction over nanoproducts used in industrial chemicals and pesticides. So far, the FDA's position has been that nanoproducts do not need to be labeled.

But the European Union has been sympathetic to environmentalists' concerns. The EU embraces the "precautionary principle" under which products are kept off the market until manufacturers prove they are safe. In the United States, the approach varies depending on the sector being regulated. For industrial chemicals, for example, the regulatory burden lies with the EPA to show risk, whereas with pesticides it is up to manufacturers to show they are safe.

Beginning in July, the EU required that all nanomaterials in cosmetics be labeled. But the leading U.S. cosmetics industry lobby, the Personal Care Products Council, contends that such labels are an unnecessary burden on manufacturers. Because U.S.-made cosmetics have been tested and approved by the

* A nanometer is one-billionth of a meter.

Continued from p. 774

ning to expand their exports to the United States.

Under the 1974 Trade Act, the U.S. president was granted so-called fast-track authority to conclude trade agreements and submit them to Congress for a single yea or nay vote without the possibility of amendments.

Meanwhile, communist countries — where trade with the United States was limited — watched as capitalist economies outpaced their own. Many decided they needed to adapt their economic models to avoid falling behind.

China was the first to change course, when in 1978 leader Deng Xiaoping opened the world's most populous country to global trade. Communist Vietnam began transitioning to a socialist-oriented market economy in 1986. The collapse of the Soviet Union in 1991 led Russia and the Eastern bloc countries to embrace their own versions of free-market capitalism. [40]

During the GATT Uruguay Round (1986-1994), tariffs were reduced even further, and the decision was made to transform GATT into the World Trade Organization, with the power to enforce trade agreements and settle disputes. With tariffs already at historically low levels, countries began redirecting their energies toward removing nontariff barriers, such as regulations on manufacturing standards and government subsidies.

In 1985 the United States for the first time agreed to remove all trade

FDA, it said, there is no need to test each individual ingredient separately.

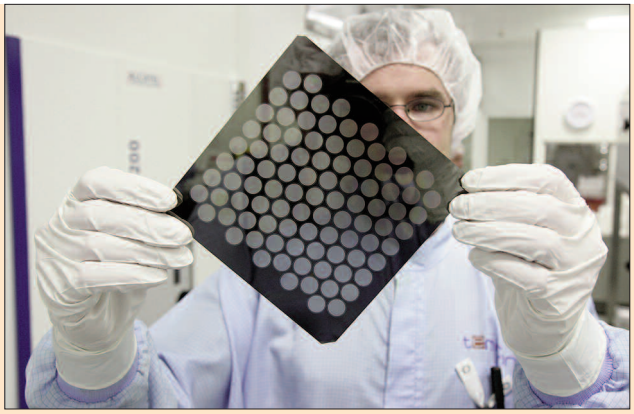
Moreover, the council's representative told a public hearing on a pending U.S.-EU free-trade pact in May that if the EU requires nano-ingredients to be labeled, it will set a precedent because when the EU makes policies, "other countries tend to replicate them."

Lynn Bergeson, a lawyer who helps U.S. companies get their nanotech innovations approved by regulators, says labeling nano-ingredients would "not necessarily impart information that is useful to the consumer who wants to know if there is an enhanced risk associated with it." Nevertheless, she notes, some U.S. nanotech companies have voluntarily labeled their products to reduce the risk of being sued in states that generally have strong consumer protection laws.

At a networking event during the U.S.-EU trade talks in July, Karen Hansen-Kuhn, international program director at the Minnesota-based Institute for Agriculture and Trade Policy, a nongovernmental group promoting sustainable farming, urged the United States to adopt the EU's precautionary principle on nanotech foods. She said some 2,000 food products contain nanoparticles, citing as an example nanotitanium, which is used in donuts as a coloring in powdered sugar coating. [6]

But Bergeson doubts the nanosector will become a new headache in trans-Atlantic trade relations. The industry is working to educate both American and European consumers on the issue, she says, and there is already some common ground between European and American regulators, such as in the pesticides sector.

Many people watching the progress on the U.S.-EU trade pact say that how the two sides handle the nanotech issue could have a major impact on the industry's development. Others say it could set the stage for future global regulation of new technologies. Hansen-Kuhn said the situation is urgent.



Getty Images/Ulrich Baumgarten

A technician at the nanotechnology firm temicon GmbH in Dortmund, Germany, examines a microscreen used in the medical technology and foodstuffs industries. Foods, beverages, toys, electrical appliances and beauty products containing nanoparticles are made by U.S. and foreign manufacturers and traded worldwide. U.S. and European Union regulators differ on how to ensure they are safe, however, presenting a dilemma for trade negotiators.

"More research needs to be done before this enters our food system — not after," she argued. [7]

— Brian Beary

[1] Hilary Flynn, "U.S. Continues to be a Nanotech Leader, but Losing Ground to EU and Emerging Economies," Powerpoint presentation, Nanotechnology Caucus Briefing, Washington, D.C., Nov. 15, 2011.

[2] *Ibid.*

[3] Sophie Petitjean, "Nanomaterials products triple," *Europolitics*, Oct. 25, 2013, www.europolitics.info//nanomaterials-products-triple-art285257-12.html. For background, see David Masci, "Nanotechnology," *CQ Researcher*, June 11, 2004, pp. 517-540.

[4] Ophélie Spanneut, "Nanomaterials: Case-by-case approach to safety assessment," *Europolitics*, Oct. 3, 2012.

[5] Petitjean, *op. cit.*

[6] Andy Behar, "Study the use of nanoparticles in food," CNN, Feb. 14, 2013, www.cnn.com/2013/02/14/opinion/behar-food-nanoparticles.

[7] Hansen-Kuhn was speaking at a stakeholders' conference on July 10, 2013, organized by the Office of the U.S. Trade Representative to coincide with the launch of the opening round of negotiations on the Transatlantic Trade and Investment Partnership in Washington, D.C.

tariffs with another country when it signed a free-trade agreement with Israel. In 1988 a U.S.-Canada free-trade agreement sowed the seeds for NAFTA. Adding Mexico to the pact was controversial, because many in the United States worried — which later proved warranted — that domestic manufacturing would head south of the border to take advantage of lower wages and production costs.

After a fractious debate, Congress ratified NAFTA in November 1993 by a vote of 234 to 200 in the House, and by 61-38 in the Senate. President Bill Clinton signed the measure into law on Dec. 8, 1993. [41]

Globalization Backlash

The 1990s marked the beginning of a new era of globalization characterized by an increasingly integrated global economy — spurred in part by the rapid growth of the Internet and marked by an upsurge in free trade and the free flow of capital and access to cheaper overseas labor markets. Countries in Asia and Latin America — including Chile, China, Mexico and South Korea — enjoyed robust growth, often fueled by a surge in exports.

Booming exports helped China lift nearly 600 million citizens out of poverty in the 1990s and 2000s, while extreme poverty in Vietnam fell from 64 to 17 percent between 1993 and 2008. [42]

Will the World Trade Organization Survive?

Regional trade deals imperil the 159-nation forum, say some trade specialists.

"We're not dead yet." Michael Punke, the U.S. ambassador to the World Trade Organization (WTO), did not quite offer a ringing endorsement of the Geneva-based body in July. [1] But if the WTO is not dead, there are many who believe it to be on life support — at least as a forum for eliminating trade barriers.

The pessimism largely stems from the failure of the WTO's so-called Doha Round of talks to lower global trade barriers. The talks, which began in Doha, Qatar, in 2001, stalled in 2008. While "there is no monopoly on disappointment in the Doha Round," Punke said, "if the WTO members have not exactly shrouded themselves in glory, they have at least kept the ship afloat."

The WTO was created in 1995 as a reincarnation of the General Agreement on Tariffs and Trade (GATT), the 1947 treaty that sought to reduce trade tariffs between nations. GATT's remarkable success led to great expectations for the WTO, which has the additional power to enforce trade agreements and adjudicate disputes.

But trade liberalization efforts were spectacularly derailed when the WTO's flagship project, the Doha Round, collapsed after emerging economies such as China and India grew increasingly assertive and refused to accept the terms pushed by the more industrialized countries. Now, the organization has decidedly downsized its ambitions for the upcoming WTO ministerial meeting, scheduled for this December in Bali, Indonesia.

According to U.S. Trade Representative Michael Froman, the question is, "Can we land a small package?" at the Bali meeting. That "package" would be composed of separate agreements designed to streamline border and customs procedures and expand trade in services and information technology products. [2] If those efforts fail, it will be "very difficult" for the WTO to move forward, Froman warned.

Recent events give little cause for optimism. With support from more than 70 countries, the WTO agreed in 1996 to abolish tariffs on information- and communication-technology products. But this summer's talks to expand that agreement to cover new products such as DVDs, video cameras and video game consoles suffered a setback, further sapping confidence in the WTO's capacity to deliver deals. Froman said he was "extremely disappointed" that the talks were suspended after China proposed excluding 106 products from the agreement's scope.

Some believe the proliferation of bilateral and regional trade agreements, forged in national capitals rather than at WTO headquarters in Geneva, further undermines the organization's authority. (*See "At Issue," p. 781.*) The latest examples are two major regional pacts currently under negotiation: the Trans-Pacific Partnership, which involves the United States and 11 Asian and Pacific Rim countries, and the Transatlantic Trade and Investment Partnership between the United States and the European Union.

China got another big boost in 2001, when it was allowed to join the WTO despite lingering concerns about its dismal human rights record and widespread fears that its huge pool of cheap labor would allow it to seriously undercut competitors.

Meanwhile, buoyed by NAFTA, Mexico boosted its trade with Canada eightfold, energizing its auto, electronics, aerospace and medical devices sectors. [43]

It was during this period that the word "outsourcing" entered the popular lexicon, commonly used to mean manufacturers in high-paying advanced economies shifting production to lower-wage countries such as Mexico or China. While outsourcing generated heavy criticism at home because of the job losses, defenders of globalized production stressed that it lowered prices for consumer goods, greatly benefitting low-income populations worldwide.

But anti-globalization sentiments grew as globalization increasingly became associated in the United States and Europe with job losses and backsliding in worker, consumer and environmental protections. Some companies — including major retailers such as Nike — were paying sub-poverty-level wages to overseas workers, and unregulated mining and dumping of toxic chemicals were harming local environments.

When the WTO met in Seattle in November 1999 to start a new round of trade liberalization talks, the city was rocked by protests organized by grassroots organizations from around the world. For a while, Seattle resembled a battle zone: 500 protesters were arrested, and massive property damage occurred. Delegates from the WTO's 135 member countries left the city without even launching a new round of talks.

In July 2001 the G8 world economic summit in Genoa — attended by leaders of the eight largest global economies — attracted 150,000 anti-globalization protesters. Italian police stormed a school where about 100 demonstrators were sleeping, leading to mass beatings even though the protesters had been peaceful. Elsewhere, police shot dead a 23-year-old protester during street clashes. [44]

Organizers held the next big WTO meeting in Doha, Qatar, a remote, autocratic state in the Persian Gulf, to make it harder for protesters to mobilize. The Doha Round of trade talks was launched in 2001, but it failed to make progress. This was less because of anti-globalization opposition, however, and more because emerging economies such as Brazil,

However, former U.S. Trade Representative Carla Hills, who negotiated the North American Free Trade Agreement (NAFTA) for President George H. W. Bush, put a more optimistic spin on the trade regionalization trend. [3] She recalled how in 1990 many in GATT were despondent when the Uruguay Round of trade liberalization talks hit a roadblock. But after the United States, Canada and Mexico agreed to the North American Free Trade Agreement (NAFTA) in December 1992 (Congress ratified it a year later), GATT negotiators were inspired to get things moving again. The Uruguay Round recovered and a deal was concluded, which led to the establishment of the WTO.

Hills suggested that regional agreements being negotiated could be partly integrated into the WTO framework. For instance, the U.S.-EU pact could adopt the WTO's dispute-settlement mechanism rather than creating its own. Hills pointed out that the WTO's dispute-adjudication panels have "put a ceiling on retaliation" by governments over perceived violations of trade rules. "If we did not have that, we would have the law of the jungle," she said.

As for Europe, America's biggest trading partner, EU trade spokesman John Clancy insists "the multilateral [i.e. WTO] route is by far our preference" in solving trade disputes. But deals negotiated outside of the WTO, he says, can become "an embryo of real international standards" that could then be transposed into a multilateral setting. Privately, most trade officials admit that the current situation, in which dozens of free-trade pacts are being concluded by a dizzying constellation of countries, is not optimal.

But who is to say the WTO, having taken many unexpected turns in recent years, will not surprise again? On Sept. 1 Brazilian Roberto Azevêdo became its new director general, the first Latin American to head the organization. His daunting challenge: to restore the WTO's reputation as the premier venue for forging a world of freer trade.

"The WTO and the multilateral trading system are at an important crossroads," Azevêdo said in his welcome message. "The choices that the WTO's 159 members make in the coming months will determine the path we take as we set out together to strengthen and support the multilateral trading system." [4]

— Brian Beary

[1] Speech at the WTO's Trade Negotiating Committee, Office of the U.S. Trade Representative, Geneva, Switzerland, July 22, 2013, www.ustr.gov/about-us/press-office/speeches/transcripts/2013/july/amb-punke-WTO-tnc.

[2] Speech at a discussion on the U.S. trade agenda, U.S. Chamber of Commerce, Washington, D.C. July 30, 2013; www.uschamber.com/webcasts/next-steps-american-trade-agenda-2.

[3] Hills was a keynote speaker at a discussion on "A North America-European Union Free Trade Agreement?" Woodrow Wilson Center for International Scholars, July 26, 2013, www.wilsoncenter.org/event/north-america-european-union-free-trade-agreement.

[4] "Roberto Azevêdo takes over," World Trade Organisation, Sept. 1, 2013, http://wto.org/english/news_e/news13_e/dgra_13aug13_e.htm.

India and China began to drive harder bargains with the United States and the EU. For example, they refused to give in to trans-Atlantic demands that they open their markets on a reciprocal basis.

Regional Pacts

The financial crisis of 2008 led to the demise of the Doha Round, as the recession that gripped the United States and Europe from late 2007 to 2009 triggered rising protectionist demands. The global appetite for a comprehensive world-trade agreement seemed to have evaporated for the time being.

Governments for the most part managed to resist resurgent protectionism, however, and the trade liberalization agenda found a new forum — or forums. Countries began signing new bilateral and regional free-trade pacts.

The EU and Asia were especially active on this front. For example, since 2000 China has sought free-trade deals with India and South Korea and finalized pacts with the ASEAN trading bloc of 10 Southeast Asian nations. In the United States, President George W. Bush had initialed free-trade agreements with Colombia, Panama, Peru and South Korea in the mid-2000s but managed to get Congress to ratify only the Peru deal before leaving office in January 2009.

President Obama, responding to pressure from labor unions and other constituents within his Democratic Party, tweaked the deals with Colombia, Panama and South Korea before finally sending them to Congress. All three agreements were approved in October 2011.

Meanwhile, the U.S. share of exports to rapidly growing East Asia plummeted 42.4 percent between 2000 and 2010 as the United States fell behind other emerging and advanced economies in forging new trade agreements with countries in the region. For instance, at the same time, Russia's share of exports increased by 50 percent, Australia's by 42.7 percent and Saudi Arabia's by 28 percent. [45]

But it was not all bad news for the United States on trade. After a decade of job losses, U.S. manufacturing has been recovering since 2009, with half a million jobs added in Obama's first term. [46]

As a case in point, USTR Froman recently toured a New Balance running shoe factory in Maine, noting that "they are employing more than ever before" and "making improvements to the

production process." Froman's trip was designed to showcase a major success story in this sector and to counter the oft-heard narrative about the supposed decline of American manufacturing.

Such success was a vindication of Obama's policy of enforcing trade laws more aggressively, having brought 18 trade complaints before the WTO thus far, Froman said. [47] Similarly, the Obama administration claimed credit for helping to revive the Detroit-based U.S. auto sector with an $80 billion government bailout and restructuring package for General Motors and Chrysler in 2009. [48] ■

CURRENT SITUATION

Declining Deficit

The generally positive trajectory in the U.S. economy continues. In early August the Obama administration announced a significant rise in exports and manufacturing output and a declining trade deficit and unemployment rate. Between May and June, the monthly trade deficit fell 22 percent, to $34.2 billion, its lowest one-month deficit since the fall of 2009. However, an imbalance between the goods and services sectors continues, with the United States running a $414 billion deficit (January to July, 2013) in the amount of goods imported vs. the amount of goods exported and a $134 billion surplus in services exported. [49] Thus, while Americans continue to import lots of toys, cars and steel from big Asian producers like China and Japan, they also are harnessing their high-skilled workforce to expand market share in fields such as financial services, software and engineering.

Meanwhile, between July and August the jobless rate fell from 7.4 percent to 7.3 percent — its lowest level since Obama took office. [50] In total, 7.5 million jobs have been created in the past 42 months, the White House has pointed out, but economists say some of the unemployment decline represents people who have simply stopped looking for work. [51]

"We're exporting more to all sorts of different countries," wrote Ryan Avent, economics correspondent for *The Economist*. The declining trade deficit "didn't come from just one set of products or one set of countries." Moreover, he said, the export surge suggests that the recovery is "sustainable," and "less based on government support . . . [or] borrowing and consumption." [52]

While U.S. economic growth picks up, China's extraordinary growth rate is beginning to taper, as rising wages cause China to lose its competitive edge, and global demand for its exports slows. [53] Even so, the latest IMF forecast says the U.S. economy will grow by nearly 2 percent in 2013, compared to almost 8 percent for China.

Trade Talks

The successful launch of U.S.-EU trade talks in July was almost thwarted by a spat over U.S. government spying. In May former National Security Agency (NSA) computer specialist Edward Snowden revealed that the United States, as part of its counterterrorism efforts, had monitored the emails of millions of Europeans. The revelations caused consternation among EU governments and the European Parliament. [54] Historically protectionist France — which has more misgivings about the trade pact than the EU's other big economies, Germany and the U.K. — initially called for postponing the talks. Ultimately the French backed down after the Germans and British insisted that the agreed timetable be honored. The EU and United States instead set up a separate working group to discuss the data-privacy implications of the NSA spy programs.

Trade representative Froman expects the "most challenging part" of the talks to be the discussions on regulatory cooperation. There are major differences between the U.S and EU systems in this area, he noted, with U.S. standard-setting bodies mostly private-sector based, whereas in Europe they tend to be quasi-governmental. [55]

Agriculture will be one of the most sensitive sectors. U.S. producers of genetically modified (GM) food and feed hope to reduce the time it takes to get their products approved by the EU, but they are pragmatic enough to realize that expecting a complete overhaul of the EU's GM labeling and tracing laws is unrealistic. U.S. farmers also hope to stymie EU efforts to extend special protection to products such as Greek feta cheese. "Geographic indication" protection rules aim to prohibit U.S. producers from using certain geographical terms (such as "Camembert" cheese) on their labels because the American-made products are not actually made in those regions.

Audio-visual services are another hot button issue, with France particularly keen to ensure that its system of quotas, which limit the number of non-French-language movies that can be screened in cinemas and on television in France, be preserved. In talks earlier in 2013 among EU member states, Paris managed to get some reassurances to this effect. However, it remains something of a bone of contention, and the EU says it has the right to return to its member governments during negotiations to ask for its mandate to be extended to cover the audio-visual sector. [56]

In Europe, the U.S.-EU pact "is the only show in town," said Michael Geary, a fellow at the Woodrow Wilson International Center for Scholars in Wash-

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At Issue:

Have regional and bilateral trade agreements usurped the WTO?

KENT H. HUGHES
Director, Program on America and the Global Economy, Woodrow Wilson International Center for Scholars

WRITTEN FOR *CQ RESEARCHER*, SEPTEMBER 2013

YES

The World Trade Organization (WTO) is under attack, not for what is has done but for its failure to deal with new challenges to international trade. Regional trade and bilateral trade agreements have surged as a result. Beyond specific rules, large trade imbalances, currency manipulation and significant investment incentives all demand action. There is a risk of a weakened WTO or one that becomes increasingly irrelevant to global trade.

There is promise, however, in the ability of bilateral and regional free-trade agreements to develop new governing rules for international trade that can, in turn, create a new structure for the WTO.

The current structure of trade rules is based on the assumption of competitive free markets with limited intervention by national governments. With the rise of Japan, an alternate approach to growth has arisen, often referred to as the East Asian Miracle. China is now practicing its own variant of this approach.

State-owned and state-influenced enterprises now play a significant and growing role in international trade. Currencies are kept undervalued — acting as a subsidy to exports and a barrier to imports. Generous tax and other subsidies are used to attract high-technology factories and research facilities from the United States and other advanced industrial countries. Rampant intellectual property theft, the impact of trade on the environment, labor and the distribution of the fruits of global growth all raise concerns.

Instead of attempting to fashion new rules at the 159-member WTO, small clusters of countries can work on developing rules that will eventually command global respect. The ongoing Trans-Pacific Partnership trade negotiations are exploring rules for state-owned enterprises, intellectual property and digital data and may explore the reality of undervalued currencies. The recently launched Transatlantic Trade and Investment Partnership holds out the potential for harmonizing a host of regulatory rules that could become a global, WTO-sanctioned standard.

Regional trade negotiations can be a laboratory for trade rules that will revitalize the WTO. Jagdish Bhagwati, the eminent trade economist from Columbia University, has decried the proliferation of free-trade agreements as a spaghetti bowl of international trade. Adding the experimental sauce of regional trade agreements can make that spaghetti bowl a tasty meal for a 21st-century WTO.

DANIEL IKENSON
Director, Herbert A. Stiefel Center for Trade Policy Studies, Cato Institute

WRITTEN FOR CQ RESEARCHER, SEPTEMBER 2013

NO

Since the World Trade Organization was born in 1995, multilateral negotiations to reduce trade barriers have borne no fruit, while bilateral and regional trade agreements have flourished. Some 216 such "preferential" deals have come into force since 1995, with dozens more at various stages of negotiation.

Preferential agreements — especially large ones expected to break new ground, such as the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) — may slightly reduce the WTO's profile, but they are unlikely to marginalize the institution or undermine respect for it.

The WTO's legislative (negotiating) leg may be broken, but its executive and judicial functions continue to work rather well. Despite having occasional misgivings about the WTO's various imperfections, most governments benefit from its existence, recognize its importance to the global trading system and appreciate its utility for resolving grievances. Even parties to preferential agreements — such as the United States, Canada and Mexico within the North American Free Trade Agreement (NAFTA) — continue to rely on the WTO to help resolve disputes, even though NAFTA has its own dispute-settlement mechanism. That's in part because the WTO system, with its 463 disputes-worth of jurisprudence, is — by and large — perceived as fair and objective. Moreover, WTO agreements provide rules and standards on issues such as dumping and government subsidies, which some preferential agreements, such as NAFTA, do not address.

WTO member countries account for 97 percent of the world's trade, so it is unlikely that the organization will be supplanted as the best forum for delivering liberalization to the broadest group of countries. As more preferential agreements are concluded, increasing the volume of trade subject to multiple sets of rules, standards and disciplines, the imperative of harmonizing and "multilateralizing" the best of these agreements under the WTO's roof will grow compelling. Businesses and others affected by the rules of trade frequently express preference for multilateral liberalization because, among other reasons, fewer sets of distinct rules enable greater economies of scale in production and lower administrative and compliance costs. The greater the number of noodles in the so-called spaghetti bowl, the greater the cost of compliance and accounting.

The proliferation of preferential agreements is a response to the failure of the Doha Round to deliver results. Rather than being ends in themselves, these agreements represent a competition in liberalization from which the seeds of best practices will be harvested and planted under the WTO.

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ington. Dogged by a jobless rate of 11 percent, Europe sees the treaty as a way to inject growth into its stagnant economy, he said. [57]

EU and U.S. neighbors — Canada, Mexico, Switzerland and Turkey — are excluded from the talks, causing worry in those countries that the U.S.-EU deal will undo recent progress in integrating themselves into trans-Atlantic trade. Thus, when Turkish Prime Minister Recep Tayyip Erdogan visited the White House in May, he asked Obama if Turkey could join the pact. But Washington's priority is to get the U.S.-EU deal finished as soon as possible and "then we can deal with other countries," said Froman. [58]

In July the scope of the Trans-Pacific Partnership was expanded significantly when Japan, the world's third-largest economy, joined the other 11 nations at the negotiating table. [59] Some observers now speculate that China may eventually join.

In August, negotiators held their 19th round of talks in Brunei. While their goal remains to conclude a pact by the end of 2013, it is unclear how close they are to meeting this goal because they have been so tight-lipped about the finer details of the negotiations. This is causing growing alarm and anger among parliamentarians and grassroots activists. According to Maira Sutton, global policy analyst for the Electronic Frontier Foundation, a San Francisco-based advocacy group for Internet users, "heavy criticism by lawmakers, opposition leaders and civil society groups from around the world is mounting" against the deal. Sutton noted that lawmakers in Peru, Chile, New Zealand and Canada were trying to force the debate out into the open but that trade officials continued to hold secretive meetings — sometimes not even telling the stakeholders they are taking place. Her organization is concerned that the pact will tighten copyright protections and weaken data-privacy norms in ways that will be harmful to Internet users. [60]

Chinese officials have expressed interest in learning more about the pact, according to USTR spokeswoman Guthrie, and "we have been pleased to share that information." She adds that pact members "look forward to potentially expanding the platform by working with other economies that are willing to adopt TPP's commitments." But even if the United States were to give China the green light, the other TPP participants would have to agree unanimously.

Among the TPP participants, Vietnam has been vocal in wanting to force the United States to eliminate import tariffs on footwear. Such tariffs protect the U.S. athletic footwear industry, but lower-paying Vietnamese footwear manufacturers want to compete freely in the U.S. market. [61]

Regardless of what happens with the Pacific trade pact, the Obama administration seems determined to continue pursuing China at the WTO over alleged violations of trade rules. In the latest case, the United States marked a victory on Aug. 2 when the WTO backed Washington in a case involving duties imposed by Beijing on U.S. exports of broiler chickens.

The future of U.S.-China relations may not be entirely adversarial, however. For instance, Froman seems open to concluding a bilateral investment treaty with China. Such an accord should require that foreign investors are treated the same as domestic ones, with only a few sectors, which he did not specify, excluded, he said. [62]

The Obama administration is also trying to ramp up trade links with sub-Saharan Africa. In August 2013 Froman went to Ethiopia to take part in talks aimed at updating a preferential trade arrangement called the African Growth and Opportunity Act (AGOA), first established by Congress in 2000. Set to expire in 2015, AGOA allows thousands of African-made products to enter the U.S. market duty-free. President Obama's goal is to achieve a "seamless renewal" of the agreement. [63]

Congressional Action

President Obama's plans to conclude the two trade pacts will come to nothing, of course, if Congress decides to block them.

In a recent exchange on Capitol Hill, Froman said "we stand ready to work with you to craft a bill" to renew the Trade Promotion Authority, the law giving the president fast-track authority on trade pacts, which expired in 2007. [64]

But observers say Obama will have to twist arms within his own party to secure renewal, and Democrats who still believe free-trade agreements cost U.S. jobs will probably try to extract concessions from him in return for their support. As for the Republicans, although they have backed free-trade deals in recent decades, a 2010 Pew poll showed that since Obama took office, Republicans have become less supportive of such pacts, with only 28 percent believing they are good for the United States. [65]

Congress is unlikely to renew the fast-track law unless it also extends until 2020 the Trade Adjustment Assistance Act, which provides unemployment benefits and re-training for workers adversely affected by expanded trade.

Also expected to be bundled into the fast-track package is the Generalized System of Preferences (GSP). It provided duty-free entry to American markets for up to 5,000 products from 127 developing countries, but Congress allowed the 37-year-old program to expire on July 31. Congress must decide whether the GSP should continue to apply to all developing countries, since today's top beneficiaries — India, Thailand, Brazil, Indonesia and South Africa — have all progressed from low- to middle-income countries.

Public Citizen's Wallach believes the Obama administration hopes to suppress public opposition to its trade deals in part by rebranding them. For instance, when first conceived in the 1990s, the U.S.-EU pact was called TAFTA (the Transatlantic Free Trade Area), but it has since been rechristened to avoid awkward parallels with NAFTA.

As for the Pacific pact, there have been no major opinion polls asking Americans specifically about those negotiations, according to Bruce Stokes, director of the Global Economic Program at Pew Research Center's Global Attitudes Project. [66] In fact, he noted, there has been relatively little news coverage of the trans-Pacific pact in the United States, in contrast to Japan, where it is widely publicized. ■

OUTLOOK

Change in China

As the two big regional trade deals draw closer to conclusion, trade is expected to become more of a hot-button issue in the United States.

"The grassroots are not buying" the administration's sales pitch about these deals creating jobs, says Public Citizen's Wallach, but "the elites of both parties are." The question, as she sees it, is how quickly lawmakers will catch up with their constituents.

Of the two deals, the trans-Pacific pact is likely to generate the most controversy. When the U.S. Senate confirmed Froman as U.S. trade representative by a 93-4 vote in June, one of the four opposing senators was consumer-rights champion Elizabeth Warren, D-Mass. She was irked by Froman's refusal to send her a draft negotiating text of the Pacific treaty.

The AFL-CIO's Drake argued on behalf of organized labor that if the new trade deals are to avoid repeating past mistakes, U.S. negotiators must draw some red lines, including:

- Retaining "buy American" laws that allow governments to give preference to U.S. products and services when making purchases;
- Eliminating subsidies to state-owned enterprises;
- Granting market access only on a reciprocal basis; and
- Establishing rules on food and toy safety and on currency manipulation. [67]

Polls indicate the U.S.-EU treaty will be an easier sell to Congress. Support for removing all remaining tariffs on European-U.S. trade in goods stands at 48 percent. Pew's Stokes has noted, however, that "if history is any guide, inevitable frictions will erode public support as adversely affected interests complain, while those that stand to benefit are less vocal." [68]

Stokes suggests the pact is part of a U.S.-EU strategy to offset the rise of China by establishing common technical and regulatory standards that would become global business norms. [69] If the U.S.-EU agreement is concluded, it also could pave the way for an even bigger regional pact.

For instance, former trade representative Hills has called for the U.S.-EU pact to be enlarged into a North American-EU free-trade agreement, bringing Mexico and Canada on board. This "would have a lot of benefits" by building on NAFTA's success in integrating supply chains, she contended. [70] Turkey can be expected to push for something similar, given that its 1995 customs union with the EU means that it will, in any case, have to apply whatever tariff regime is agreed to under the Transatlantic Trade and Investment Partnership.

As for what will happen to state-owned enterprises in emerging economies such as China, Craig Allen, deputy assistant secretary for Asia at the U.S. International Trade Administration in the Department of Commerce, predicts "they will dramatically restructure" as the Chinese government begins to realize that the state-sponsored economic model stifles technological innovation. Allen says reforming the state-owned sector will be key to helping China escape the "middle-income trap," in which developing countries grow rapidly for a while but then hit a ceiling that keeps them a tier below advanced economies.

Meanwhile, revival in the U.S. manufacturing sector is creating optimism about future growth prospects. According to Gene Sperling, director of the National Economic Council in the Obama administration, "the wind is at our back now" as manufacturers who set up shop elsewhere in the early 2000s are returning home. "We are up 500,000 jobs," he said, adding that the administration's priorities are to modernize infrastructure, harness energy supplies and better enforce international trade rules. [71]

The administration's buoyant mood has yet to fully filter down into the general public, however, which remains anxious about the state of the economy. Asked to account for this disconnect, *The Economist*'s Avent said it was because "we're in such a deep hole, and the road out has been so long and slow that we still have a ways to go." [72] ■

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