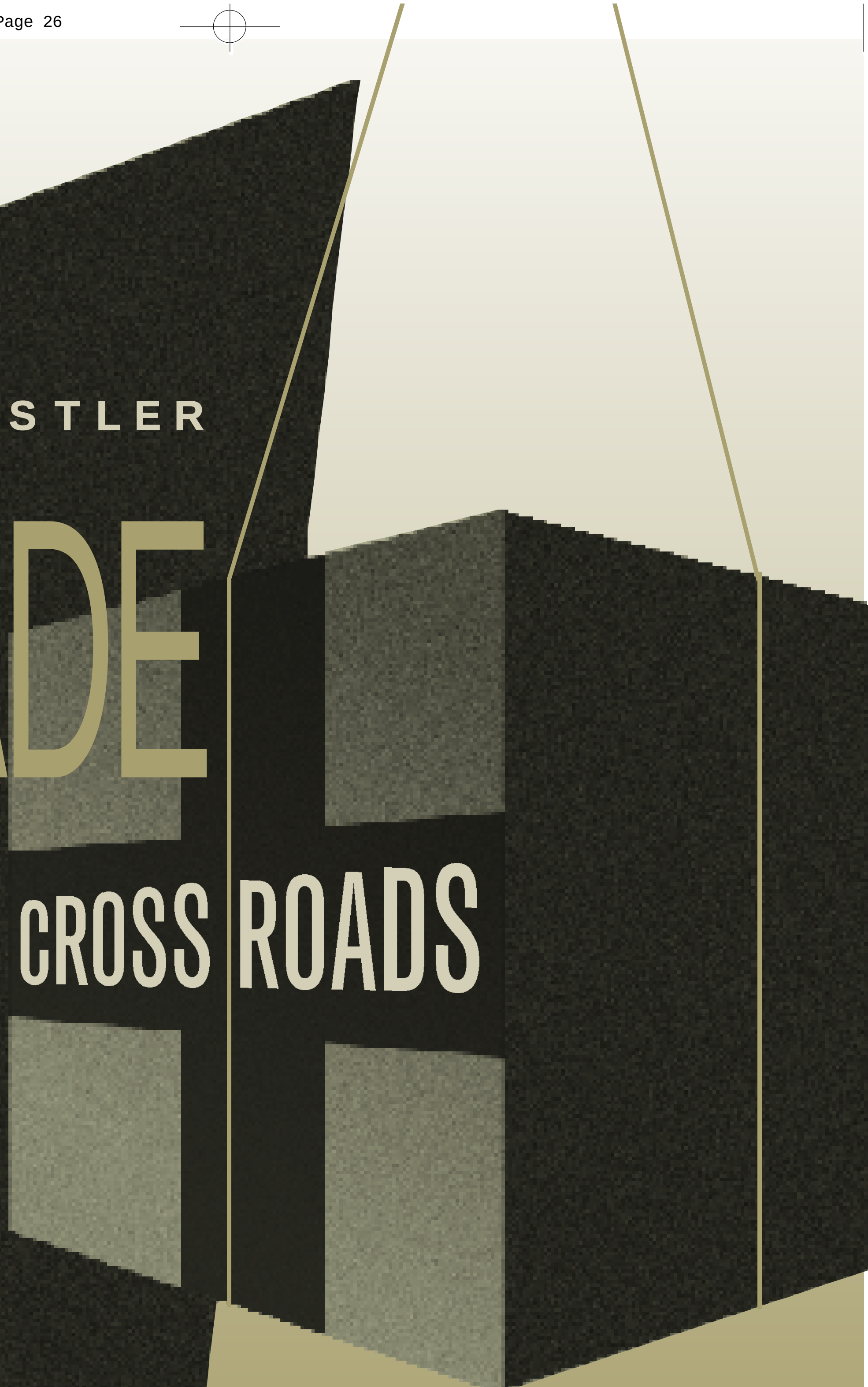
NATIONAL PRIORITIES

BY I.M. DESTLER

TRADE POLICY AT A CROSSROADS



AN APPROACH FOR 1999—AND BEYOND

FOR U.S. TRADE POLICY, the past quarter-century is not without irony. Its first 20 years were replete with economic troubles, real and perceived: "oil shocks" and double-digit inflation in the 1970s; the "twin deficits" of budget and trade in the 1980s; unemployment, the productivity slowdown, and stagnation in workers' take-home pay; the growing challenge from Japan. Yet over these same two decades, the United States maintained and reinforced its open-market international trade policies, with two unprecedented global agreements (the Tokyo Round and the Uruguay Round under the General Agreement on Tariffs and Trade), the North American Free Trade Agreement, and other liberalization initiatives.

In the past five years, by contrast, the U.S. economic situation has turned astonishingly rosy. Inflation and unemployment are both at or near their 25-year lows. Productivity is rising, as are workers' real incomes. The budget deficit and the Japanese threat are both history. Yet since the beginning of 1995, U.S. trade policy has been on hold. For the better part of three years President Bill Clinton sent no proposal to Congress to renew the "fast-track" negotiating authority granted to all his predecessors since Gerald Ford. When he finally did so, and lobbied hard for it in the fall of 1997, his overture was spurned. When House Speaker Newt Gingrich pressed for approval last September, the vote was negative.

Today U.S. producers and consumers are exceptionally well positioned to gain from global trade. Federal government action can enhance these gains, particularly by negotiating with other nations to achieve further mutual reductions in trade barriers. But no agenda for U.S. trade policy can be credible in 1999 unless it recognizes and takes account of the political forces that led to today's stalemate.

I.M. Destler is director of the Center for International and Security Studies at the Maryland School of Public Affairs and a visiting fellow at the Institute for International Economics. This article is drawn from the author's chapter in Setting National Priorities *(Brookings, forthcoming).*

Diplomatic Success, Political Stalemate

Bill Clinton inherited two landmark trade initiatives: NAFTA, signed by President George Bush in 1992, and the GATT Uruguay Round, initiated under Ronald Reagan. In an uphill battle, Clinton won congressional approval of NAFTA in November 1993—after negotiating side agreements with Canada and Mexico on labor and environmental issues. His U.S. Trade Representative, Mickey Kantor, closed the Uruguay Round deal a month later, and Congress approved its implementing legislation in December 1994.

The United States concluded 1994 with two new trade-liberalizing commitments. In November, leaders of the Asia Pacific Economic Cooperation Forum (APEC) agreed to free trade among themselves by 2010 (2020 for the less developed members). In December Western Hemisphere nations pledged to negotiate a Free Trade Area of the Americas by 2005.

The years that followed saw further progress in trade liberalization under the auspices of the World Trade Organization, the permanent global institution created during the Uruguay Round. Three new sectoral negotiations carrying over from the Uruguay Round were successfully concluded: information technology in December 1996, basic telecommunications services in February 1997, and financial services in December 1997. The WTO's Dispute Settlement Understanding also got off to a credible start. The United States became the most active complainant and won most of its cases.

The United States also remained active in bilateral trade matters, striking agreements with Japan on autos and China on intellectual property. But U.S. negotiators were undercut by the expiration of fast track, the law that allows them to make credible commitments to reduce U.S. trade barriers in exchange for market-opening commitments by U.S. negotiating partners.

Fast track is Washington's solution to a bedrock constitutional dilemma. The president and his executive branch can negotiate all they like, but Congress makes U.S. trade law. Other nations know that our highly independent legislature will not necessarily deliver on executive promises. So in negotiations where broad-ranging commitments to open markets are exchanged, they refuse to bargain seriously unless U.S. officials can assure that Congress will write their concessions into U.S. statutes. Fast track offers that assurance, with its promise that Congress will vote up or down, within a defined time period, on legislation submitted by the president to implement specific trade agreements.

Congress first granted fast-track authority in

1974 and renewed it five times thereafter. When APEC members and the Western Hemisphere nations agreed to free trade in 1994, the prevailing assumption was that the U.S. president would be granted that authority to carry out his nation's side of the bargain. So it was also with the follow-on agenda of the WTO involving intellectual property, government procurement, and agriculture. But President Clinton will shortly enter his sixth year without fast-track authority, and near-term prospects for its enactment are not good.

The trouble began with a 1994 proposal by USTR Mickey Kantor for a broad, seven-year fast-track extension as part of the Uruguay Round implementing legislation. Building on the NAFTA side agreements and seeking to mend trade policy relations with wounded Democratic constituencies, Kantor proposed that "labor standards" and "trade and the environment" be among the seven "principal trade negotiating objectives" for which fast track would be employed. Organized business objected vehemently, as did free-trade Republicans. Compromise was never reached, and the administration did not include fast track in the bill.

In 1995, the House Ways and Means Committee, under its new Republican chairman Bill Archer (R-TX), approved a fast-track bill. But sporadic negotiations with Kantor, centering on the labor-environment language, were unsuccessful. In early 1997 the Senate Finance Committee leadership joined its House counterparts in pressing for a White House fast-track proposal. But differences over labor and the environment had hardened. Many Democrats wanted these issues to be central to future trade negotiations; almost all Republicans took the opposite position.

The president's heart lay with his Democratic allies. And there were strong general arguments for linkage: trade undeniably affected both workers and the environment, and trade policy needed to broaden its domestic support. But the Clinton administration had been pressing these connections since it came to office and meeting strong international resistance, particularly from developing nations that saw the trade-labor linkage in particular as disguised protectionism. After postponing a decision for months, Clinton went where the votes were, toward the Republican majority. He proposed legislation in September 1997 with severe limits on coverage of labor and environmental issues. He counted on his persuasive powers, as witnessed earlier with NAFTA, to bring victory. But despite 11th-hour, one-on-one lobbying, the president gained support from only 43 House Democrats, just 21 percent of the total.

Faced with House defeat, Clinton asked House Speaker Newt Gingrich—a strong fast-track supporter—to adjourn for the year without a vote. Gingrich complied. But when Clinton—concerned over Democratic divisions—failed to renew his proposal in 1998, Gingrich brought it to a vote anyway, urged on by business and farm interests and Republican partisans. The result was a debacle—180 votes for and 243 against. Just 29 Democrats voted yes, and 71 Republicans were opposed.

The Current Situation

The U.S. market remains open. The U.S. economy is in exceptionally good shape, recent signs of weakness notwithstanding. But U.S. trade policy is in serious trouble. The core reason is what stymied fast track: the impact of globalization and Americans' differences about how to respond. Growing U.S. engagement in the world economy has had important effects on Americans' welfare and their economic institutions. On balance, the impact is favorable, and the flexibility and innovativeness of U.S. firms and workers augur well for the future. But anxieties are widespread.

Caught in the middle are Democrats concerned about increasing inequality in U.S. income distribution, the weakening of labor unions, and the impact of economic activity on the environment. Many see globalization as inevitable and trade as, on balance, a good thing. But they also see losers, particularly among their core constituencies, and they see weak and declining U.S. programs to help these losers. They favor strengthening the safety net at home, but they also argue for moves toward globalization of norms on labor and environmental standards. These "trade and..." issues blocked fast track in 1997, and the lines hardened when Gingrich tried to force matters in 1998.

Traditional business protectionism, by contrast, was barely visible in the fast-track fight. But a surge in steel imports has now triggered a strong industry campaign for relief, and other industries may follow. For the strength of the dollar, and the Asian financial crisis, have brought a rise in the volume of imports comparable to the unprecedented surge of the early 1980s. Throughout the Clinton administration, the overall U.S. merchandise trade deficit has been rising: from $131 billion in 1993 to $198 billion in 1997 and a projected $250 billion for 1998. Over the first two years, the actual impact on the U.S. economy was muted: the increase in the *quantity* of imports was less than the increase in *value*, as a decline in the dollar led to a modest rise in import prices. But in 1995 the dollar began rising, and since then, with import prices falling, the increased quantity of imports has been greater than the dollar figures show.

The final piece of bad news for U.S. trade policy has been the global financial crisis, compounded by the collapse of confidence in Japan. Both have shifted administration legislative attention from fast track to replenishment of IMF resources, which Congress finally granted last October.

Political and economic circumstances today are therefore less auspicious than those under which Clinton's fast-track campaign failed in late 1997. Yet the arguments remain strong for renewing the U.S. policy of leadership in international trade liberalization.

Why Trade Liberalization Still Makes Sense

The economic case for open trade begins with the gains from specialization. We trade because we can get more of the goods and services we value by devoting our energies to what we can do well and using the proceeds to purchase what others are good at making (or doing). Lowering U.S. import barriers increases opportunities to trade, and thus the gains from trade.

Trade also offers dynamic benefits by encouraging deployment of America's resources, including creative human talent, in innovative, knowledge-intensive industries, leading to increased productivity and a larger "economic pie" for distribution within the nation. A final economic advantage of U.S. trade liberalization is the leverage it provides in getting other nations to reciprocate.

The economic case for active trade-negotiating policy is particularly strong vis-à-vis countries with which we trade substantially—those in North America, East Asia, and Europe. APEC encompasses the first two, so liberalization under its auspices offers great potential. Economic gains are maximized in global negotiations under the auspices of the WTO, simply because their successful conclusion brings substantial barrier reduction by the preponderance of U.S. trading partners.

By economic criteria, U.S. trade with the remainder of the Western Hemisphere is less critical. But trade plays a particularly constructive *political* role in U.S. relations with today's Latin America. Democratization and economic reforms have led most of those nations to reverse the longstanding priority given to "nonintervention in internal affairs" and national economic autonomy. Their agreement to a Free Trade Area of the Americas is widely viewed as the triumph of the deepening of engagement with the United States and with each other. It is a powerful source of U.S. leverage, particularly on economic issues but beyond them as well.

Trade policy also has substantial domestic political importance. The stance our government, particularly Congress, takes is a potent symbol of Americans' attitudes toward engagement in the global economy. Openness and readiness to negotiate are signs of confidence. Ambivalence and stalemate suggest pessimism about our capacity to handle the new challenges. Moreover, U.S. trade policy reflected bipartisan consensus as recently as the Uruguay Round vote of 1994. Restoring that consensus is important for effective policy in the future.

Finally, to the degree that Americans are genuinely concerned about trade's impact on social norms and conditions at home as well as abroad, international trade negotiations remain the primary means of shaping the terms of globalization. It is reasonable and proper to debate what U.S. negotiating priorities should be. But failure to engage is not reasonable, for globalization is coming, ready or not.

Breaking the Stalemate

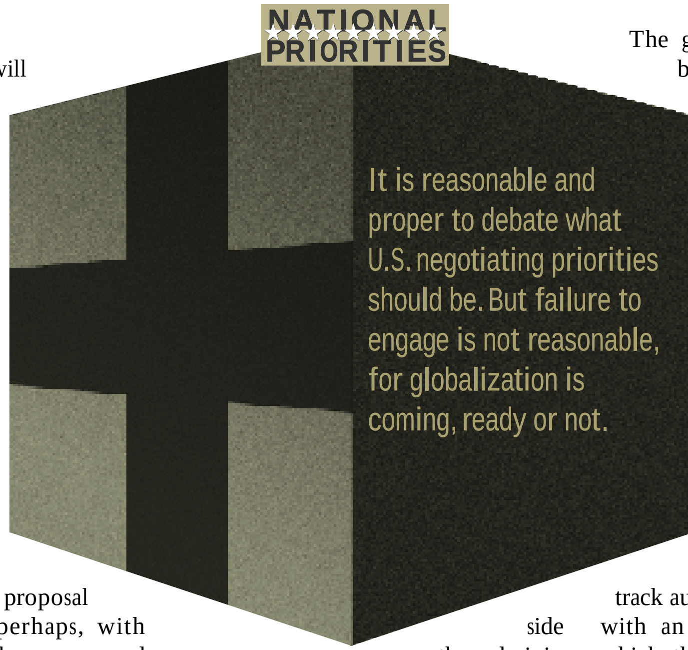
Without fast track, President Clinton and his successor will be unable to negotiate significant new trade agreements. And their hands will be tied in their exercise of broader international economic leadership. Much of the recent argument over fast track has been symbolic, for no one can claim that important new trade-related labor and environmental understandings are available to the United States if only Congress would authorize their pursuit. Thus many in the trade policy community see these issues as a no-win diversion, a move into territory guaranteed to stir domestic controversy with little chance of international achievement. Yet trade *does* affect the plight of workers. Trade *does* affect the environment. If means are not available to address these effects, advocates of these causes will oppose trade liberalization.

At the same time, the trade agenda can easily become overloaded with "related" issues for which there is little prospect of meaningful agreement. Seeking to do everything may assure doing nothing. And for some in the labor-environment coalition, this may be the objective.

If the matter at stake were a central trade negotiation with major, visible costs to the United States for not joining it promptly, a House majority could probably have been squeezed out in 1997 or 1998. But the agenda is scattered—FTAA, APEC, WTO sectoral talks—and the costs of delay to U.S. interests are initially modest. Thus it will be difficult for the administration and its allies to win by resubmitting the old bill and "trying harder." Yet waiting until 2001 and a new presidency means two more years of U.S. trade policy weakness, of hardening ideological lines at home, of leaving the agenda and the gains to other nations or allowing the global and regional trade regimes to drift.

Bill Clinton appears to recognize all this—he has spoken repeatedly of the need to "do the hard work of building a bipartisan coalition" on trade "when Congress returns next year." What follows is a suggested approach aimed at winning some significant negotiating authority next year, with prospects of more thereafter.

The United States will host, late in 1999, the next Ministerial Conference of the WTO. Clinton should establish a goal of enacting trade legislation by that date. He should restate his maximum agenda—fast track under the time-tested formula, granted for a number of years, covering regional FTAs as well as global negotiations. He should negotiate a timetable with legislative leaders—a presidential proposal sometime in March, perhaps, with House action by midsummer and Senate consideration thereafter.



Most important, the president should signal his readiness to compromise on specifics by launching a dialogue with leaders on both sides of the ideological divide, including members of Congress and representatives of private organizations. This dialogue should address three central, intertwined issues: the specific negotiations to be authorized, the means for addressing the "trade and…" issues, and the means for coping with the costs of globalization. Each might be addressed by a working group organized by the administration but reaching beyond it.

A working group on the specific negotiations, for example, could be headed by the U.S. Trade Representative, Charlene Barshevsky. The current global agenda consists primarily of WTO sectoral negotiations. They have been generally less controversial than the regional agenda, where the U.S. debate has centered on NAFTA and its legacy. Until fast-track advocates in the proposed working group can make a stronger case about NAFTA than they have to date, the group would likely confirm greater support for the global than for the regional negotiations.

The group on "trade and…" issues should be headed by a senior figure outside the administration known for sympathy for the two central concerns—labor and the environment—and for trade liberalization. The group should include representatives of the business, labor, and environmental communities who are prepared to be pragmatic about one another's perspectives and to explore how much they might be accommodated. The hope would be to develop an action agenda for international negotiating goals and means acceptable to most Republicans and attractive to many Democrats.

A final group would address the costs of globalization to Americans who are hurt by it. Its head might be a sympathetic member of Congress or a prominent former member, such as Bill Bradley. The lack of a strong program to help the trade losers has been a major weakness in the Clinton administration's position, for a positive adjustment policy for workers at home would respond much more effectively to their plight than any conceivable agreements on labor standards overseas. The longstanding U.S. Trade Adjustment Assistance program has lost credibility because of modest funding and perceived ineffectiveness in worker retraining. A possible alternative would be a program of "earnings insurance" offsetting a portion of workers' losses in pay that result from trade-liberalizing agreements.

The goal of such a dialogue is to broaden support for trade policy and address trade's often-disruptive impacts on American society. It could lead to any one of a number of policy outcomes, from development of a narrow fast-track bill for negotiations with broad support (probably WTO sectoral), with dialogue continuing on the thornier issues; to enactment of broad fast-track authority together with new programs for those hurt by trade and economic changes; to a law combining immediate fast-track authority for certain negotiations with an expedited procedure under which the president could seek it for others. Realistically, one would hope to build a consensus approach that would win, eventually, significant support within the environmental community and the backing of some labor sympathizers.

It would be best for U.S. trade policy if Congress were to grant comprehensive fast-track negotiating authority immediately. But this is not likely, nor is it essential. What is essential is for the president, Congress, and key societal groups to engage in a process that leads to step-by-step granting of negotiating authority as it addresses, step by step, the concerns of critics. The process must begin soon and continue through the 2000 elections. For, left to itself, the presidential primary dynamic will only make matters worse, as Democrats compete for union favor and Republicans joust for endorsement by values conservatives sympathetic to linking trade and abortion policy or trade and religious freedom.

Anxieties over globalization have brought stalemate to the U.S. trade policy agenda. But the exceptional current condition of the American economy offers an unusually favorable climate for addressing these anxieties. If not now, when? ■