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On the Issues

Free Trade and the 2004 Presidential Race

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Senator John Kerry and President George W. Bush offer distinct visions of how free trade would operate for the next four years. Senator Kerry has staked out a more unilateralist position with promises to review all trade agreements to strengthen labor and environmental sanctions, while President Bush reinstated trade promotion authority and expanded free trade agreements. The next president will face challenges regarding the WTO Doha Round and markets in Latin America and Asia.

Certainly neither candidate or party has a monopoly on the right course for future public policy, but at least in one area—international trade policy—supporters of free trade and more open, competitive markets (including the U.S. market) have a clear choice: while Senator Kerry has waffled and other Democrats and the party platform have taken blatantly protectionist positions and criticized the market-opening achievements of the Bush administration, in unprecedented fashion President Bush and the Republicans have vigorously touted their record of championing new free trade agreements throughout the campaign.

Kerry Campaign Promises

Candidate Kerry's current stand—in contrast to a generally internationalist record as a senator—is basically: "I am for free trade, but . . ." with the buts including demands for sweeping new labor and environmental rules and sanctions, punishing "Benedict Arnold" CEOs who invest abroad, and, if all else fails, unilaterally forcing open foreign markets by "us(ing) the power of the world's biggest marketplace to leverage the kind of behavior that we want." (This from the leading critic of President Bush's alleged "unilateralism" in foreign policy).

To be fair, Kerry, like Clinton before him, faces strong anti-globalist pressures from important elements of the Democratic coalition—the trade unions, many environmental organizations, and former Naderites. Thus, he has been forced to call for a wholesale review of all existing U.S. trade agreements in the first 120 days of his presidency, and then to stand silent when Teamsters president James Hoffa announced after meeting with him that the result would be a reversal of decades-old, bipartisan support for open markets and new trade agreements. The Kerry campaign was also conspicuously silent when Senate minority leader Tom Daschle denounced the recent breakthrough in the Doha Round WTO negotiations as a "sellout" of U.S. farmers.

Leading internationalists in the Democratic Party argue that the campaign's protectionist and unilateralist thrusts are merely rhetorical gestures to appease important elements of the Democratic base, but that in the end Kerry's trade policy would not look much different from previous administrations'. The problem with this argument is that it is 2004, not 1992. In 1992 and for much of his presidency, Bill Clinton got away with this straddling

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and triangulation. But labor, environmentalists, and Naderites have long since vowed that they will not "gulled" again—and that they will demand results this time. It should also be noted that by the end of the 1990s, two-thirds of House Democrats and almost half of Senate Democrats routinely opposed new free trade agreements.

Should he win the presidency, then, it will be impossible not to deliver on some of the promises made in the campaign. With that in mind, what are the most retrograde elements of the "Kerry-Edwards trade plan," as outlined in campaign statements and the Democratic party's website?

- The combination of the 120-day review and the demand that new labor and environmental sanctions be included in future (and existing) trade agreements—if pushed as a sine qua non—will torpedo both the WTO Doha Round and the Free Trade of the Americas negotiations, as well as future agreements with the burgeoning East Asian economies. While the United States can force small countries in bilateral negotiations to give way on these issues, such is not the case with larger countries in regional and world trade negotiations.

- The promise to reinstate the Super 301 process, similarly, will blight trade relations with all U.S. trading partners—as well as put the United States in violation of rules it agreed to in the Uruguay Round of WTO negotiations. Under Super 301 (enacted in the 1988 trade act and allowed to lapse several years later), the United States acted as prosecutor, jury, and judge in determining unfair trade practices and sanctioning nations found guilty. For U.S. trading partners, it symbolized the ultimate in U.S. unilateral bullying.

- Support for new "Buy America" rules will overturn a long-standing U.S. policy (supported by both Democratic and Republican administrations) to introduce equal treatment in government and private procurement contracts for foreign and domestic firms. This has been a central priority for U.S. negotiators in current multilateral, regional, and bilateral trade negotiations, not the least because of the high competitiveness of U.S. firms in international construction, telecommunications, and defense contracts.

- Support for the so-called Byrd Amendment—by which U.S. firms that win antidumping cases are allowed to double dip through disbursement to them of the funds collected by antidumping duties—will place the United States once again in violation of WTO rules and lead to a large increase in antidumping cases as corporations line up at this new pork barrel trough.

The Bush Record

Given the political imperatives and realities surrounding U.S. trade policy, no administration will fully satisfy free traders—but the Bush administration, while suffering notable lapses in several key episodes, has established a record of accomplishment stronger than that of any recent administration, Republican or Democratic. Let's lay out the mistakes upfront: first, the president disgracefully caved in to protectionist interests when he imposed safeguards and raised tariffs on steel products in 2001; second, after having ignored a farm bill that was heading toward a large increase in subsidies, the administration intervened too late and was forced to agree to retrograde, market-distorting farm legislation. In both cases, however, there are mitigating later moves: on steel, the president lifted the tariffs (to the howls of steel executives and labor leaders) after only twenty months, or about half the period that protection was possible; and on agriculture, the administration subsequently put forward a bold proposal for reform in the multilateral WTO negotiations (more on this later).

Since 2001, there have been three years of incessant activity on the trade front; and it is easy to forget that from 1994 to 2002, the United States had been sidelined and forced to watch other nations conclude over one hundred free trade agreements (FTAs) that clearly discriminated against U.S. manufacturing and service firms. This hiatus stemmed from the inability of the Clinton administration to get Congress to renew so-called trade promotion authority (authority for the president to conclude trade agreements and have Congress vote them up or down quickly and without amendment). In 2002, the Bush administration broke the seven-year deadlock and moved to reassume leadership on trade liberalization.

Two distinctively novel hallmarks define Bush trade policy: (1) the explicit linkage of trade policy with other political, diplomatic and security goals (including the war on terror); and (2) the doctrine of "competitive liberalization," whereby the administration will negotiate FTAs with all comers—individual countries, groups of countries, and whole regions—in pursuit of global free trade.

These new tenets of U.S. trade policy provoked criticism within the U.S. and international trade policy communities. It is argued first that introducing extraneous political or diplomatic criteria somehow "pollutes" trade policy and detracts from free market goals. Such criticism largely demonstrates the parochialism of trade experts—though the Bush administration has been more explicit, the pursuit of the national interest has always necessitated a meshing of economic with political and even national security purposes. This fusion has a particular cogency in the post-9/11 world; and thus is makes perfect sense for the Bush administration, for strategic reasons, to include Morocco, Bahrain, Jordan, and our Iraq ally, Australia, among its priority FTAs.

It has also been argued that the "competitive liberalization" strategy signals a reordering of U.S. trade priorities away from multilateralism and the WTO. At least to this point, such criticism is unfounded. The United States took the lead in launching the Doha Round of WTO negotiations and has advanced bold multilateral liberalization proposals, such as elimination of industrial tariffs by 2015; elimination of agricultural exports subsidies, capping agricultural tariffs at 25 percent, and dramatically reducing internal crop subsidies. It is also pushing for sweeping liberalization in key service sectors. Though U.S. negotiators blundered before the disastrous Cancún ministerial conference in 2003 (seeming to ally themselves with "old Europe" on agricultural policy), they quickly recovered and took the lead in putting together a coalition and proposals that put the Doha Round back on track in July.

In pursuit of competitive liberalization, the Bush administration has negotiated trade agreements with twelve countries and is pursuing negotiations with ten other countries. While individually, most of the FTAs represent only a small fraction of total U.S. trade, taken together they are the equivalent of America's third largest export market and a substantial portion of total U.S. trade. If the Free Trade Area of the Americas (FTAA) is successfully concluded over the next several years, the addition of Latin America will boost this total considerably.

Challenges Facing the Next President

On all fronts—multilateral, bilateral, and regional—President Bush has produced a strong record of accomplishment. This does not mean, however, that there are not major challenges in trade policy for either a second Bush administration or a Kerry administration. Three goals stand out. The first is to demonstrate the imagination and the flexibility to fashion compromises on key issues—agriculture, services, intellectual property—that will bring the WTO Doha Round to a successful conclusion. Second, while "competitive liberalization" is a feasible and practical policy, the next president must still prove that it will work beyond economically insignificant bilateral FTAs—that is, that it can lead to successful conclusion of regional negotiations in Latin America and the Pacific. Third—and an extension of the second challenge—there is an urgent necessity to get ahead of rapidly evolving trends and events in Asia. The Asia Pacific Economic Forum (APEC), the only vehicle for trans-Pacific trade integration, is basically moribund. At the same time, Japan and Korea have broken with their old aversion to bilateral and regional agreements and are negotiating separately with their Asian neighbors. Most significantly, China has emerged as a driving force toward East Asian integration. Over the next four years, it will be important for the United States either to revive APEC or at a minimum make it clear that it wants to be represented at any negotiation involving the big East Asian economies—China, Japan, Korea, and the ASEAN group.

Certainly not all of candidate Kerry's damaging proposals will be enacted or even pushed with vigor if he wins in November, but taken together they represent a hunkering down and inward-looking defensiveness that is far removed from Bill Clinton's bold exhortation in 1992 for the United States to "compete not retreat." For his part, President Bush has accomplished a lot, but there is still a full plate for a second term.