

What We Can Do Ourselves

Without new international pacts, domestic trade reforms loom larger.

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Lurking behind discussions of the 2007-08 trade agenda is a novel circumstance. For the first time in recent memory, that agenda is being driven by domestic reform priorities rather than by international commitments.

Historically, the U.S. trade regime has developed mainly through changes required, and enacted, to implement international pacts. But with the stalling of the World Trade Organization's Doha round, the likelihood that only smallish free trade agreements requiring minimal U.S. changes will pass through the current Congress, and with the lapse of the president's special "trade promotion authority," there will be little near-term need to adjust our trade regime to the requirements of new agreements.

Yet that regime will not remain static. International commerce is changing rapidly, and there will be pressure to ensure that the applied trade policies of the United States keep pace. International rules will remain relevant—but more as a limiting than a motivating factor.

For a government temporarily freed of the need to focus on agreement-driven changes but eager to keep its trade policies effective, what autonomous reform proposals will rise to the top? Issues worth watching include the following:

CHINA

The big debate in trade today involves America's trade relationship with China. The main focus is the misvaluation, vis-à-vis the U.S. dollar, of China's currency and the adverse trade effects widely thought to result. Other flash points include China's shortcomings in protecting U.S.-owned intellectual property, its use of industrial subsidies, and the safety of exported Chinese products.

The menu of policy responses ranges from blunt (immediate, across-the-board tariff hikes) to highly arcane (changes

to deeply buried rules governing application of contingent trade remedies). The debate's urgent tone reflects the large U.S. bilateral merchandise trade deficit with China, as well as the much-publicized trouble many U.S. manufacturers are experiencing from Chinese competition.

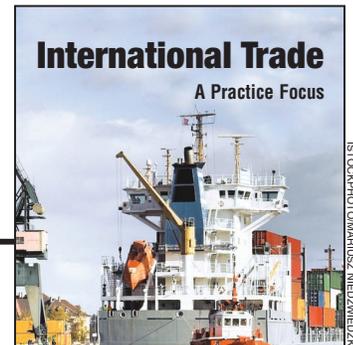
Yet this may be an area where sound and fury exceed actual policy changes over the next 15 months. Views on fundamental issues—including the nature and size of the "problem" and the wisdom of various responsive actions—vary greatly within the U.S. business community, between the two houses of Congress, and between Congress and the executive branch.

There is also an important story, now being told more effectively, about the advantages of low-priced imports from China. Major policy innovations—as distinct from new monitoring arrangements, reporting requirements, and the like—are far from certain to materialize in the next 15 months.

TRADE REMEDIES

The U.S. system of contingent trade remedies (anti-dumping, countervailing duty, and safeguard measures) evolves continuously at the administrative level through policy bulletins, case-specific determinations with horizontal impact, appellate rulings, and shifts in the political-level personnel and enforcement postures of the relevant agencies. Some of these changes are narrow, while others—for example, the Commerce Department's recent decision to apply countervailing duty law to nonmarket economy products—have broad importance. This evolution will continue over the next 15 months.

Additionally, for the first time in many years, conditions may exist for autonomous reform by statute. Traditionally, trade remedy statutes are revised only in bills implementing international agreements, the lone exception being the Omnibus Trade and Competitiveness Act of 1988.



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But another exception now looms. Proposals under review would make import relief more readily available, for example (1) by curbing administration discretion in implementing China-specific safeguards and in “graduating” countries to market-economy status; (2) by making trade remedy measures responsive to persistent misalignment of foreign currencies; and (3) by overruling appellate decisions seen as creating inappropriate hurdles to import relief.

China-specific concerns are helping to power this reform effort. But there are reasons for the traditional reluctance to open these statutes for amendment. Getting a package of changes through the legislative gantlet will be enormously difficult.

PRODUCT STANDARDS

Product standards will also be important. A new issue racing to the front of the queue for both legislative and administrative changes is safety-based regulation of imports, particularly from China. A series of alarming headlines, involving tainted food and hygiene products and potentially toxic toys, has led to a flurry of hearings and other activity in a new Congress that already holds a nuanced attitude toward imports and favors an activist approach to product safety regulation.

The Bush administration has also reacted, forming an interagency working group on import safety and launching “cooperative” product-safety initiatives with the Chinese government. The food and agriculture regulatory agencies, along with the Consumer Product Safety Commission, have sought to increase their capacity to regulate products from outside the United States.

At minimum, increased vigilance will continue and could be legislated. An open question is whether there will be further changes creating some sort of new safety-based border measure.

PREFERENCE PROGRAMS

Through tariff preferences, the United States gives favorable treatment to certain products from developing and least-developed countries. These measures have important foreign policy and economic rationales, but because of their unilateral character, the details are often in flux. The 109th Congress enacted reforms to the broadest U.S. preference program, the Generalized System of Preferences, and to the textile/apparel-focused African Growth and Opportunity Act. It also passed a short-term extension of preferences for Andean products.

Further policy churn is likely. The Generalized System of Preferences will continue evolving, administratively through the annual review process and perhaps legislatively as well, with country and product graduations remaining an important focus.

The new African Growth and Opportunity Act rules will likely receive some fine-tuning, and the preferences for Andean countries will need to be addressed in light of congressional consideration (or nonconsideration) of the Peru and Colombia free trade agreements. Finally,

new preferences motivated by foreign policy—aimed, for example, at Iraq, Afghanistan, and Pakistan—will receive consideration.

APPAREL AND AGRICULTURE

With textiles and apparel, the fitful U.S. transition from tightly regulated to market-based treatment of imports continues. In theory, the phaseout of quota import controls in this sector is now complete. In practice, improvised policy adjustments have slowed liberalization, especially for key suppliers China and Vietnam.

Domestic industry complaints over imports from China triggered repeated use of a textile/apparel safeguard mechanism in 2005 and 2006, followed by a “comprehensive” agreement limiting the growth of China’s U.S.-bound shipments through 2008. For Vietnam, the United States removed quota limitations, but the Bush administration implemented a “monitoring” regime to track these imports and facilitate self-initiation of anti-dumping cases by the government.

These ad hoc measures have powerful supporters and opponents. They are also set to expire by January 2009. Stakeholders will be eager to get successor arrangements in place before the November 2008 elections. With issues so consequential both politically and economically, the likelihood of significant developments during the next 15 months is high. In addition, administration actions may be affected by promises already made, as with the recent announcement of a safeguard investigation on certain imported socks.

As for agriculture, the 2002 farm bill expires this year, and Congress is working on a successor bill. In the mix is nearly \$20 billion a year in subsidies, including major programs acknowledged to distort trade.

Current U.S. policy is broadly supported by the farm lobby across regional and partisan lines. Pressures toward reform—both domestically and from trading partners—have had little effect. In Congress, the sharpest debate has involved not crop subsidies but corporate tax increases proposed to help fund nutrition spending. Foreign pressure may have actually increased the resolve of rural state lawmakers. The Doha round now offers little incentive for U.S. policy reform. The trade-related aspects of U.S. farm policy could be static over the next 15 months.

TARIFFS AND ADJUSTMENTS

Roughly every two years, Congress passes a miscellaneous tariff bill suspending tariffs on imported goods where there is no domestic production, the forgone tariff revenue does not exceed \$500,000 a year, and the suspension is “noncontroversial.”

Although initial preparations for the next bill have begun, speedy enactment is not assured. The last bill, enacted late in the 109th Congress and effective through 2009, received some harshly negative coverage in the context of broader press attention to corporate welfare, spending earmarks, and secretive legislative procedures.

Most participants regard the miscellaneous tariff bill

process as transparent because each proposed item is vetted through industry surveys and public notices. Nonetheless, because the bill relies on a fragile legislative process and will not become urgent until the next Congress, action will require a strong consensus between House and Senate leaders. Absent such a consensus, prospects are limited.

Trade Adjustment Assistance is also an issue. This provides job training, relocation, and health care benefits to workers dislocated by economic competition from imports. Similar aid is available for trade-affected firms and farmers. Current TAA authority expires on Sept. 30. The policy consensus on this program is thin, making every reauthorization an adventure. In the current environment, past coalitions

that paired Democratic support for trade-liberalizing initiatives with Republican support for TAA renewal will be difficult to replicate.

Reauthorization is not the only issue. There are pockets of discontent in Congress over TAA's coverage and spending levels, as well as a desire to extend benefits to service workers. The likeliest near-term outcome is a short extension, leaving for the future a bigger bargain embedding TAA expansion in a trade-liberalizing package.

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