



**The Obama Administration Trade Policy  
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Last year when I was giving these speeches, I predicted a year with lots of activity and few results. That's pretty much what happened. We made progress in a number of areas, but, aside from the Bali Ministerial, there were few results. And even that was hardly a huge outcome; although, just getting an agreement was a significant accomplishment. This year, had I been writing this speech two months ago, I would have said 2014 will be a year of results, but, now, eight weeks into the year, it's beginning to look more like 2013.

The agenda hasn't changed. And – fair warning – it is largely issues that are indirectly rather than directly related to what you do. Almost everything begins with "T" – TPA, TPP, TTIP, TISA and TAA – but there is also ITA and now EGSA. These are big deals in every sense of the word, and they reflect both the rapid changes occurring in the trading system and the evolution in countries' strategies for dealing with multilateral gridlock.

As the world continues its evolution to a global supply chain model assisted by rapid technological change, we face challenges to the traditional trading system and within that system to the issues that have traditionally been our focus.

The gap between rich and poor countries is narrowing, although inequality *within* countries, including ours, is growing. That creates new economic pressures on the developed countries at the very time their economies are still fragile, and it creates new institutional problems because the emerging economies have been reluctant to strengthen their commitment to a multilateral system they had little part in creating. In short, rich countries are no longer willing or able to pay high costs to maintain the system as is, and the BRICS don't want to pick up their share of the tab.

The consequence for the trading system is that we are moving away from MFN and towards a two-track system, where one group moves faster on trade liberalization in a variety of different forums and the other group is "just watching."

Going through this transition will be painful. The developed countries have to adjust to diminished status. The emerging economies have to accept new obligations. Currently, neither is handling that very well, and I think we're in for a rocky five to 10 years. Eventually, however, new roles get sorted out, countries recognize where their interests,

rather than their rhetoric, lie, and begin to act accordingly. This is why I am a short-term pessimist and a long-term optimist.

Let me be clear, though: Multilateralism is always the first best option. It is only when it is not feasible that governments and business look for alternatives.

Those alternatives, however, are inevitably the product of countries' geopolitical strategies.

For example: the President's determination to be a "Pacific President" is a response to the growing challenge of China and the other BRICS to Western political and economic models. That challenge has forced the Administration to think more creatively about how trade policy fits into our overall global strategy, and the failure of the Doha Round has opened the door to a search for new paths.

Even so, the Bali Ministerial proved the WTO is not dead – a welcome sign. If the trade facilitation part is implemented fully, it will lower the costs and complexity of accessing foreign markets and provide traders with a clear picture of rules and regulations, which will be particularly useful for small businesses. (The OECD estimates that trade facilitation reforms would lower the total trade cost of shipping goods by 10 to 15 percent depending on the country.)

That success has prompted a discussion of what next. So far, the conversation is pretty much the same as it was a year ago. The United States and other developed countries want to talk about the new challenges to trade – digital trade and the free flow of information, localization barriers, intellectual property protection, state-owned enterprises, and environmental goods and services. Developing countries want to go back to the unfinished business of the Doha Round. We are willing to do that but only in tandem with the things we care about. And so the argument continues to go round in circles, and I expect it will take all year simply to agree on an agenda. In other words, don't look for fast action in Geneva. In addition, one element of the deal – to permit countries like India to backslide on Uruguay Round commitments on agriculture subsidies – could actually make progress on agriculture more difficult. (The NFTC has produced a paper on a post-Bali agenda, and I have brought a few copies along if anyone is interested.)

Another reason why expectations there are modest is that the primary short-term focus will be on implementing the trade facilitation provisions of the Bali agreement. This involves turning the agreement into legal language and having countries submit their Schedule A commitments and then ratify the agreement. This will provide many new opportunities for fighting, and I predict a rocky road that will preoccupy ambassadors.

While those fights are going on, the countries that want to move faster will be trying different things, as Kid Rock said. But many of them won't be very far away from Geneva.

The first is a services plurilateral agreement – TISA, which has the strong backing of the business community for two reasons. First, it offers tangible benefits in trade liberalization. Second, if it is successful, it will send an important signal to those countries that are a drag on the system that much of the world is prepared to liberalize trade with them or without them.

It is already clear, to no one's surprise, that this negotiation will not be an easy one. None of them are these days, but a framework exists, offers have been exchanged, and we should fairly soon have an idea of how much progress will be possible. Whether or not China joins will be a significant decision. Their participation would make the agreement much more significant, but their unhelpful role in the ITA talks, where they have much more to gain, raises the possibility that letting them in could effectively kill the negotiations.

The second is expansion of the Information Technology Agreement, which currently is in doubt due to the failure of China to make an adequate offer. The Chinese are usually superb at identifying and pursuing their interests, but in this case have not yet been able to surmount internal demands for protection, even though they would be the big winners if the agreement is completed. I suspect eventually they'll figure this out and come back to the table with a better offer, but I can't predict how long that will take. Other experts say this summer.

The third is the newly announced environmental goods and services agreement (EGSA), which has the advantage of APEC already having done the preliminary work, but it is too soon to say what will happen. Progress on this is important because it would help demonstrate the ability of trade policy to address critical global challenges.

These are important initiatives, but for the United States the real action lies in the plurilateral agreements we are pursuing.

TPP is at the danger point of all negotiations – once the issues are narrowed to a handful of politically difficult ones, will political will evaporate? Last year I was optimistic about an early conclusion, but today I am not so sure. It is ironic that despite all the speeches about a 21<sup>st</sup> century agreement, new issues, etc., the big fights are over Australian sugar, New Zealand dairy products, Vietnamese apparel, and, increasingly, Japanese rice and other agricultural products – the same things we've been arguing about for 50 years. At this point, for the United States, it seems to hinge on Japan, which appears to be getting cold feet. Japan was admitted to the talks in the expectation it was prepared to meet the same terms as everybody else – no exceptions with respect to tariff reduction – but they seem not to have moved from their insistence on protecting their five products. If they do not, then I don't see others being willing to make major commitments, and that leads to three possibilities:

- An unambitious result as all parties reduce their offers;
- No immediate result – the negotiations go on the back burner;

- An ambitious result but without Japan, as the other 11 ask them to leave until they are ready to make substantial commitments.

The next few months will tell the story, but failure to conclude last year and few signs of progress this year so far have made me less optimistic than I used to be.

TTIP is not at the same inflection point. There is no debate about its importance, but, while enthusiasm for it is great, there is also skepticism about its chances. For one thing, we've been negotiating the same regulatory issues with the EU for 20 years without success. I'm optimistic we can get beyond that because of our mutual concern about emerging market competitive challenges, largely China, and the realization, to quote Ben Franklin, "if we don't hang together, we will all hang separately."

Notwithstanding our mutual good intentions, however, we are divided by fundamentals. Three of the most obvious are privacy, competition and precaution. The first is made more complicated by the NSA controversy, and the last, which underlies EU policy making in a number of areas, goes far beyond the American preference for science-based regulation. There are potential middle grounds in these areas, but finding them and agreeing on them will not be easy. It will also be complicated because both sides have active oversight bodies in the Congress and the European Parliament, as well as numerous active civil society organizations that will be monitoring the talks closely.

Even so, the talks have maintained a good pace, with the next round set for next week. The EU initially talked about concluding this year, but there has not been much said about that lately, and few believe it is realistic.

The important thing about these negotiations is that both of them are about the elephant that is in the room but not at the table – China. Both of them are engaged in writing rules for the trading system that China and the other BRICS will come under pressure to adhere to, either because they want to join TPP or because they want to access the Trans-Atlantic market.

That is one of the reasons why a plurilateral approach is attractive. It's a way to create better rules without having to negotiate directly with the countries most likely to oppose better rules. If it works, we have better rules and more rapidly growing markets, with those left behind clamoring to get in. And they can get in, if they accept the rules, which takes us down a road that leads back to multilateralism.

If it doesn't work, we are still left with better rules in two very large markets. Of course, we always have the possibility of total failure – an inability to reach agreement even within the narrower confines of a plurilateral negotiation, but right now I choose to be optimistic about our ability to complete both sets of talks – eventually.

The biggest domestic topic here will be new trade promotion authority (TPA). The Administration does not need it to start a negotiation, but would like to have it to finish. I believe the conclusion of a TPP agreement will drive this train. Congress doesn't like to

vote on controversial issues if it doesn't have to – courage is not a hallmark of today's legislators, particularly in the months before an election. If there is no agreement for them to vote on, they will see no need to vote on TPA. If TPP concludes, that will move them to begin the process of considering TPA.

The interaction between TPP and TPA is complicated. On the one hand, the former's completion will push Congress to act on the latter. On the other hand, TPP is the focus of the anti-trade people's objections, and its completion, which means its details will become public, will provide more ammunition to oppose it as well as TPA. So TPP in a way is both the solution and the problem for getting TPA done. The right answer is to have passed TPA in 2009 like the NFTC suggested, but it's too late for that now.

The anti-trade folks have been busy, both in Washington and in the states, sowing doubts about trade in general, about TPP in particular, and about trade promotion authority, which they argue is an enabler for TPP. Their arguments are mostly either exaggerations or simply wrong, but the business community, I'm sorry to say, has been slow to respond to the challenge, particularly at the state and local government level. We are getting better, but our opponents have been adept at designing scare stories that play on the fears of people far away from here who don't think about trade very often.

Most of those stories relate to investor-state dispute settlement and the allegation that unregulated tribunals of foreigners will be able to force the United States to change its laws or regulations. This is not true, but the absence of a TPP text to demonstrate it makes it difficult to mount an effective defense.

This is another irony. The anti-trade folks decry the lack of transparency in the negotiations – alleging a secret agreement – but then take advantage of it to tell lies about what the agreement would do.

These groups have made inroads despite recent polls showing growing support for trade because they exploit the classic dilemma of trade negotiations: the losses are short term and specific, while the gains are long term and diffuse. The losers – and there always are some – know they have lost because they can measure it. The winners often do not know they have won because their victory cannot be measured in the short term or simply because they are not paying attention.

This means a difficult, contentious debate. It is made more complicated by the change in Finance Committee chairmen from Senator Baucus to Senator Wyden – although that will be good for the Pacific Northwest – and by the Republicans' determination to put the President in an awkward situation by pressing him to develop more Democratic support than is realistic. These are not fatal blows, but they will slow the process down. At this point, I think a vote after the November elections is most likely, and then only if TPP demands it. In other words, the fast-track bill is not on a fast track.

There are other issues, including the customs bill, where I am optimistic based on conversations with staff of the two committees, and fully spending the HMT revenues,

where you clearly have an ally in Senator Wyden. But if I covered everything, there would be no time for questions. I've given you some guesses – hopefully educated ones and now I'd be happy to discuss whatever is in your minds.