



## Is a Trade Deal in the Offing in Congress?

*I. M. Destler says it is unlikely that there will be a quick congressional approval of the Colombia free trade agreement as part of an economic stimulus package.*

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Steve Weisman: Welcome to Peterson Perspectives. This is Steve Weisman at the Peterson Institute for International Economics. Our guest today is I. M. Destler, senior fellow at the Peterson Institute, professor of public policy at the Maryland School of Public Policy, and an expert on trade. He is the author of *American Trade Politics*. Mac, welcome. Thank you for joining us.

I. M. Destler: Happy to be here, Steve.

Steve Weisman: There's a lot of talk about a stimulus package coming up before Congress either in a lame-duck session or after the first of the year. Will trade be part of a stimulus package, do you think? Will the Colombia free trade deal end up on the agenda?

I. M. Destler: There's certainly a lot of trade people who wish it would end up on the agenda and they look back to previous periods. The last major multilateral trade agreement, the Uruguay Round, was approved in a lame-duck session back in 1994 in the Clinton administration and going back way before that, major trade legislation was passed in the 1974 lame-duck session. So there is some precedent for this and the trade buffs also say, "Well, this is something that maybe new President Obama would like to have behind him." He did oppose it during the campaign. Many Democrats have been critical because they're genuinely concerned about human rights in Colombia and also because organized labor has made this a strong issue for them. But maybe they could sneak it by. Maybe they could do it now. There's also the sense that the President might be more flexible on the stimulus package if he could get this Colombia Free Trade Agreement approved.

Then finally, of course, there's the question of what to do about the automobile industry, which is very prominent. If you think about grand bargains, you might say, "Well, why not? Why not have a big grand bargain in which the president shows flexibility on the stimulus package and on automobile-related issues," and the Democrats in Congress and Obama say, "Okay, we'll have a vote on a Colombia Free Trade Agreement." My personal guess is that this is not a

very likely to happen. First of all, for the House Democrats and for Obama, there's a real question of what do we gain from getting things now rather than getting things two months from now when the White House will be occupied by Obama. Bush's approval is not irrelevant, but it's kind of a wasting asset or has a short half-life because he's not going to be here. So probably it would be of some use to have the stimulus package now rather than immediately after Obama comes in, but they could prepare the way for that and have it very soon.

Steve Weisman: Who are the main champions of the Colombia deal?

I. M. Destler: It's interesting. It's not really so much an economic issue because Colombia is not a tremendously important trading partner for the United States. It's really been more a political-military question. The Colombians are an important ally in the region and the current Colombian president has made great progress in the fight against guerrillas. There is a sense that, and it still is, of course, a major battleground in the drug war. And there's a feeling that Mr. Uribe ought to be rewarded for this. There is the basic economic argument that since we have a trade preference understanding and legislation vis-à-vis Colombia such that they could essentially come into our market duty-free anyway, we could even equalize things and benefit ourselves unilaterally by having our products received there duty-free.

Steve Weisman: During the election campaign, Senator John McCain and, of course, the White House said that approval of this agreement would open some markets in Colombia for American goods. Is that quantifiable?

I. M. Destler: It is quantifiable but I think the numbers are not large. As I said before, I don't think the main priority is for the size of the market.

Steve Weisman: The security issue, of course, is compelling to the Democratic leadership in Congress. They are not fans of Venezuelan president Hugo Chavez. They probably would like to do something for an ally. Why are the Democrats so resistant?

I. M. Destler: Well, substantively, it's one of those situations where, in a sense, both sides are right. The Democrats argue quite rightly that violence in Colombia is still high, that some of this violence is clearly perpetrated not by the guerrillas but by paramilitary forces or by military forces in Colombia who are trying to get up their kill ratio in the civil war. So there are clearly bad things going on. The administration is right insofar as I can see the evidence and that the number of people being killed and the number of trade unionists being killed has gone down sharply and it's less than half of what it was a few years ago. And so there has been improvement on the question of civil violence and this most basic form of human rights.

Steve Weisman: We really don't know President-elect Obama's intentions, do we? He sent mixed signals on trade during the campaign.

I. M. Destler: That is correct. President-elect Obama, during the campaign, has said things like he wanted to renegotiate NAFTA. He was opposed to the Colombia and Korea Free Trade Agreements as negotiated. The only real substantive signal he gave is that he thought the labor and environmental provisions of these and of NAFTA should be stronger. But he also, of course, campaigned in states that were losing jobs and so, by implication, was perhaps concerned about the impact on these states.

On the other hand, he initiated very little conversation about trade directly during the campaign it seemed to me. The battleground states for a long time looked like they were Ohio, Pennsylvania, and for a while Michigan. That suggests to me and to many others that Obama said what he said in the primary campaign partly in reaction to what Hillary Rodham Clinton was saying and that when that issue was no longer relevant, he then stopped pushing trade. He's talked more than a little bit about export of jobs and the desire to not reward people for exporting jobs. But that probably will require only a modest adjustment in our tax code, and not anything that's highly protectionist.

So my judgment is that Obama is more in the free trade tradition of every president since Franklin Roosevelt than he would be a reversal of this tradition. On the other hand, there's no reason to believe that he regards trade as a high-priority issue. It's not at all clear when he wants to take this on. Most of the signals suggest that he doesn't want to take it on right now. Even if he could say it was just the Bush administration and the Congress approving this, people would assume that he had nodded or winked if the Congress acts on it. So my guess is that he would like to have some further concessions from Colombia or some further actions from the Colombians particularly on the labor-rights/labor-protection issue that he, the Democrats, and Congress could claim credit for. On that basis, they would like to act on Colombia maybe on their own time. But how fast they would do that is unclear.

Steve Weisman: You mentioned the automobile industry a moment ago. That industry is very concerned about the Korea Free Trade Agreement, which is also pending. I believe the United Auto Workers are quite vehemently opposed to that. Are you suggesting that as part of a Detroit or automobile rescue package that the Korean agreement could be part of that?

I. M. Destler: I doubt very much that the Korean agreement would come up as part of a deal on a rescue package for the auto industry. First of all, the Bush administration, although of course it negotiated the Korean agreement, has been frustrated, until recently anyway, by the behavior of the Koreans on the agricultural issue in particular. The Koreans made promises and then didn't

keep them. Then the new president made a commitment but he had to back away from it because of demonstrations in Korea. There is a genuine concern that formally in the agreement the Koreans made a lot more concessions in terms of market barriers on automobiles than we did. In practice, they have found ways to keep them out or limit them to a small share of their market. So I think there is a sense that something more would have to be negotiated or dealt with on automobiles in order for the Korea FTA to be substantively and politically viable. That isn't going to happen in a week or two of a lame-duck session.

Steve Weisman: We're going through a financial crisis and a global recession. It's been often pointed out that in the 1930s, the global recession led to trade barriers and protectionism. Are you afraid that might happen again?

I. M. Destler: In the 1930s, of course, the onset of the Great Depression in 1929 was followed by the enactment of the infamous Smoot-Hawley Tariff in 1930. That did slow down trade to the United States, and other countries retaliated, so there was a general contraction of trade partly driven by policy. It worsened the Great Depression although it didn't cause it. I don't think anything like that is going to happen now. We have much stronger institutions with the WTO and multilateral trade agreements so countries are essentially committed to maintaining open markets. Now, it's certainly possible that on the margins, countries could take action that would be trade restrictive. Or they could take action vis-à-vis their exchange rates. To the degree they can influence those in ways that keep an exchange rate weak, it of course has the same effect as imposing a universal tariff. So you could have at the margin or in other areas, state actions that would be protectionist in nature. I don't think there's a danger of a Smoot-Hawley type retreat to protectionism across a large scale.

Steve Weisman: Thank you, Mac Destler, for joining us today on Peterson Perspectives. I hope we'll have another opportunity to talk about these issues.

I. M. Destler: Thank you, Steve. I look forward to it.

