



## A Turning Point on Trade?

*Jeffrey J. Schott sees the expected approval of the Korea, Colombia, and Panama trade agreements as a boost to the economy and a harbinger of more trade discussions.*

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Steve Weisman: After long delays and disputes, the trade agreements with Korea, Colombia, and Panama are near approval in Congress and a signature by President Obama. Jeffrey Schott, senior fellow at the Peterson Institute, is here to explain the significance of this turning point. This is Steve Weisman. First, can these agreements be approved by the time of the visit of President Lee [Myung-bak] of South Korea?

Jeffrey Schott: I think after the action on Oct. 5 by the House Ways and Means Committee, where the three agreements were approved by a large majority, the path is clear for action and approval in both Houses of Congress, probably next week. [The agreements were approved subsequent to this interview.] That would be very propitious, because it would coincide with the visit of the Korean President in State Dinner at the White House [on Oct. 13].

Steve Weisman: Much distrust has contributed to the impasse over measures that really have always commanded support in Congress from both parties. What broke the logjam?

Jeffrey Schott: I think there were two logjams. One was substantive and one was procedural. On the substance, the Obama administration went back and negotiated supplemental agreements in all three cases. The most important was the supplemental agreement negotiated with Korea last December that added new rights and obligations with regard to the automobile sector and a few other provisions. That addressed numerous concerns from US business and labor and led to the unprecedented support of the Korea/US Free Trade Agreement by both the business community and the United Auto Workers. Similarly, a deal was struck with Colombia with regard to their labor practices and policies that is currently being implemented, and with Panama on some tax issues and a few other small matters. Each of these agreements was supplemented in part by additional actions taken by the Obama Administration. That led them to be more comfortable in supporting these agreements and asking their Democratic constituencies to do so.

Steve Weisman: I don't know if you'd call it substantive or procedural, but there was also an agreement on Trade Adjustment Assistance.

Jeffrey Schott: You're absolutely right in calling it both substantive and procedural. There was a very strong view in the Administration that Trade Adjustment Assistance had to be reauthorized to complement the benefits for the business community from these new trade agreements, with benefits for workers that would risk suffering displacement because of the new competition in the US marketplace. And that substantive agreement was reached actually a few months ago between leaders in both parties and the Congress and the Administration. But the level of mistrust between the parties was so great that the sequencing of how the votes would be taken created additional delays that were only finally resolved in a Senate vote late last month.

Steve Weisman: Supporters of these agreements will tout their benefits far and wide. How much will they help the US economy?

Jeffrey Schott: They certainly will contribute to US economic growth, US employment growth, in a period when the US economic prospects have been flagging. At the margin they're going to be a net benefit for the United States.

Steve Weisman: What do you mean by "at the margin"?

Jeffrey Schott: Trade with these three countries is relatively small in size compared to the overall US economy. So any trade agreement will help boost productivity and thus employment in the US economy, but it is only going to make a modest improvement in the very difficult economic situation we have now. But the sign is right. It will be a positive contribution to US economic growth, US trade, and US employment. And the fact that we've been delaying and foot dragging on implementation for so long means that we've just lost a lot of time and a lot of opportunity to improve the welfare of the American people.

Steve Weisman: You have also made the point that the resolution of the differences over these agreements could lift a cloud over the administration's commitment to trade.

Jeffrey Schott: I think the passage of these trade agreements in Congress will have two specific benefits, besides the increased opportunity for US exporters and the increased employment prospects. First, it will send a clear signal to our trading partners that when we cut a deal in an international agreement with them, that we will follow through and implement it.

Steve Weisman: It may take time.

Jeffrey Schott: It may take some time. All countries have political sensitivities, and they understand that you have to go through your domestic processes. But in the case of these agreements, it has been more than four years for Korea and Panama, and almost five years for Colombia. And this has created a lot of doubts about the commitment of US Politicians to implementing trade agreements. So this will unblock that process or at least send a very clear signal, which will help US negotiators as they move forward particularly in the negotiation of the Trans-Pacific Partnership [TPP], which has the potential for creating extensive new opportunities for US traders and investors, creating new employment in the United States.

The second cloud -- and this is perhaps less well understood -- is that for the past eight months, US trade officials have essentially been walking on eggshells. They have delayed moving forward on bilateral, regional and multilateral initiatives with our trading partners, which could lead to new opportunities for US trade and employment -- for fear that they would touch on a sensitive political issue that could raise concerns among some members of Congress. And for fear of generating new opposition to trade agreements or having those trade agreements become a hostage to a change in those positions. US officials have basically held back and a lot of sensitive positions and a lot of work on the Trans-Pacific Partnership, for example, has been slowed down. Because we have not moved forward with our own position and therefore, not been able to table to our trading partners what we want in areas such as: labor, environment, state-owned enterprises -- new disciplines in state owned enterprises and the like. That is of great importance for the interest of US exporters and investors, but [we] haven't moved for fear that they would touch a raw nerve in the Congress.

Steve Weisman: Remind me on the Trans-Pacific Partnership, isn't there an upcoming APEC [Asia Pacific Economic Cooperation forum] meeting?

Jeffrey Schott: Yes, in fact there had been hopes that the draft of the Trans-Pacific Partnership agreement would be largely complete by the time of the next APEC Summit in Honolulu, in the middle of November. One, where President Obama is going to welcome leaders from this important region to his hometown.

Steve Weisman: And what can we expect in Honolulu now?

Jeffrey Schott: I think there will be a number of specific initiatives that are moved forward in the APEC meeting with regard to economic relations among the 21 countries in the Asia Pacific region, who are a part of this Asia-Pacific Economic Cooperation forum. But we probably will only get a status a report on the Trans-Pacific Partnership, one that perhaps goes into detail, on how broad the scope of substantive provisions are. But [it] cannot go into a lot of detail, because among the twenty chapters or so of the agreement, there are a lot of blank spaces or unresolved issues that still require a lot of work.

Steve Weisman: Jeff, thank you.

Jeffrey Schott: Thank you very much.

