

El Colegio de Mexico

Conference

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The United States: The New Presidency & Foreign Policy

US Policy towards International Trade & Finance

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1. Presidential-Congressional Relations

- Good relations are critical for international economic initiatives because of the co-equal status of the president and Congress; only in the military and “pure” diplomatic sphere does the president’s voice dominate Congress.
- If re-elected, Obama will face a Republican House and a blocking minority (if not a majority) of Republicans in the Senate. While Republicans tend to support international economic initiatives, Obama will have to compromise on design.
- If elected, Romney will likely enjoy Republican majorities in the House and Senate. However, the Democrats will have a blocking minority in the Senate. Major free trade and investment initiatives (e.g., a territorial tax system) will likely face almost total opposition from House Democrats.

2. Crisis Fighters: IMF and G-20

- Assuming continued slow or modest recovery in the world economy, then --
- Neither Obama nor Romney will endorse a major expansion of IMF resources (say to \$1 trillion) to help EU members or other nations in difficulty.
- Both will support surveillance through specialized forums (e.g., BIS, FSB), but short of legal obligations imposed on US regulators (notably the Fed).
- The G-20 will remain a “meet and greet” institution, rather than a “joint action” forum.

- Only a crash akin to the 1987 meltdown or the 1929 collapse will change this outlook – and in that event, the first responders will be major central banks, bolstering the system through massive swap lines plus unorthodox monetary intervention (beyond QE3).

3. China Bashing

- Romney promises to name China a “currency manipulator” and impose tariffs, possibly across the board. If implementation matches rhetoric, the outcome could be major trade dislocation, with geopolitical overtones.
- Obama promises continued diplomatic pressure on the currency, bolstered by WTO cases and trade remedies (he’s proud of the tires decision – at a cost of \$800K per job, for the 1000 jobs saved).
- Either way, so long as the US runs a global trade deficit in excess of \$300 billion, the outlook calls for frosty trade relations with China. In 2012, the trade deficit will be around \$600 billion.

4. Trans Pacific Partnership

- Both candidates are committed to the TPP. The real question is which one will put more effort into securing a Congressional mandate (akin to “fast track”) and which one will be willing to make “concessions” (in a mercantalistic sense) to trading partners. Difficult concessions for the US: sugar and dairy; textiles and apparel; government procurement of services; cabotage.
- Under Romney, the TPP probably emphasizes geostrategic competition with China. Under Obama, the TPP might have more the flavor of a bridge to cooperation with China.

5. WTO Doha Development Round

- Neither candidate has expressed support for the DDR. Support for parts of the Doha package could be forthcoming, but probably only plurilateral deals, such as Trade Facilitation, International Services Agreement, Information Technology Agreement, and Food Export Controls
- The grand vision of a global economy, with multilateral free trade and investment, has lost its appeal for many Americans, in the wake of high

unemployment, a slow recovery, and stagnant household incomes for the past decade.

6. North America

- Romney would be more open than Obama to trade initiatives within North America, because NAFTA does not carry the same bad memories for Republicans as it does for Democrats. In practical terms, this means energy cooperation (oil, natural gas, electricity), and perhaps conciliatory resolution of trade disputes (tomatoes, softwood lumber, etc.)
- Romney has also promised an immigration bill, increasing legal flows based on skills and creating pathways to citizenship. But he opposes measures that look like “amnesty”. Both Obama and Romney will spend money on the border patrols; neither will advocate federal drug de-criminalization; and neither will take effective steps to limit the sale of assault rifles.

7. Central America, the Caribbean, and South America

- The wild cards here are Cuba and drug cartels. Perhaps Romney would insist on more “reform” in Cuba before opening the way to greater trade and investment. Both candidates seem inclined to deal with drug cartels as a law enforcement problem rather than a question of broad and rapid economic development.
- As for South America, Romney seems to want a trade deal with Brazil, though he speaks of a deal with all Latin America. The level of Brazilian interest remains to be seen. In the event of widespread drought and soaring food prices, the US might open to Brazilian agriculture (sugar, ethanol, beef, etc.), but otherwise that will be hard to sell to Congress.

8. Trans Atlantic Partnership?

- The US and EU have conducted quiet talks to explore the hurdles facing a TAP initiative. Meanwhile, Canada and the EU are negotiating an FTA. If Obama or Romney decides to push this initiative, both Canada and Mexico will want to join the talks.
- Difficult issues abound: regulatory convergence, agricultural market access, recognition of professional degrees, genetically modified organisms, etc.

The big attraction of a TAP is to balance TPP and to construct a dynamic alternative to a world economy dominated by China.

- At the moment, it's hard to tell whether Obama or Romney is more interested in the TAP, and the attitude of Congress is unknown. In general terms, House Democrats are not so opposed to a trade agreement with Europe as they are to trade agreements with Asia. However, particular details of a TAP would likely awaken significant opposition both from Democrats and Republicans.