

Obama reaps whirlwind of past trade vows

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US administrations have long been addicted to overselling trade deals

Two decades ago Bill Clinton promised that the North American Free Trade Agreement would create 1m US jobs within five years. Something nearer the opposite took place. At the end of his presidency, Mr Clinton vowed China's entry into the World Trade Organisation would wipe out America's trade gap with the rising giant. Instead, it grew in multiples. His successors, notably Barack Obama, are reaping the whirlwind. He must now cope with the biggest trade rebuke of any modern US president – and at the hands of his own party.

US administrations have long been addicted to overselling trade deals. The greater the hype, the harder the backlash. Ironically, they have turned trade into a scapegoat for society's economic ills. Compared to Mr Clinton, Mr Obama's salesmanship was relatively modest. He argued that the Trans-Pacific Partnership, which includes 11 other countries that account for almost 40 per cent of the global economy, would be a foreign policy victory – the centrepiece of his famed pivot to Asia. "If we don't write the rules for global trade – guess what? China will," Mr Obama said. Some of his colleagues were less judicious.

Earlier this year, John Kerry, the secretary of state, said TPP would create 650,000 new American jobs. His claim was demolished by economists. Even the deal's most ardent enthusiasts say it would only add 0.4 per cent to US gross domestic product over time – a nice bonus, to be sure, but hardly game-changing.

Given the strident opposition of unions, Mr Obama showed courage in arguing for TPP. Last month, he made his case at the headquarters of Nike, the sports giant – a symbol of the multinational corporations that liberal Democrats revile. He resisted the temptation to promise TPP would create lots of new jobs. Instead, he focused on the higher quality ones that would result from opening economies such as Japan and Vietnam to stronger US services exports and protection of intellectual property rights. It was a nuanced case. Yet he could not resist claiming that TPP would boost "fairness and equity" right here in the US. It will do no such thing. Claiming trade deals make society fairer is like saying exercise will make you beautiful. When you discover the error, you are more likely to give it up.

That, in a nutshell, is the trade off White Houses have been making – scraping through deals today on the basis of claims that make future deals harder to pull off. Mr Obama is no exception. If he had been more honest, he would have said trade deals are good for efficiency. **There can be little doubt that Nafta, the Uruguay Round and China's accession to the WTO were good for the US economy as a whole.** The same is true of the 2010 US free trade agreement with South Korea. **But they were not good for every American.** Far from it. Chinese imports have undercut US producers and obliterated jobs in large tracts of the US. Much of the damage occurred in districts represented by Democrats who now oppose virtually any trade initiative. The US has

lost 6m jobs in the past fifteen years. Only 600,000 have returned since the recovery began in 2009. Yet US manufacturing exports are a lot higher than they were 15 years ago. Trade lifts productivity. That means fewer (though better paying) jobs. Efficiency and equity are very different things.

Little wonder so much of America's middle class is sceptical of the next trade deal. They believe they are being sold a bill of goods. US presidents add insult to blue collar injury by throwing in a sop called Trade Adjustment Assistance – a fund that subsidises workers who have been laid off because of trade. The latest package amounted to \$1.8bn over 10 years, which is barely enough to retrain a fraction of those who have been displaced. The TAA was set up by John F. Kennedy when he completed the Kennedy Round of world trade talks in 1962. Richard Nixon tried and failed to get rid of it. Economists have been trashing it ever since.

Apart from its minute size, TAA is entirely arbitrary. What is so special about workers who have lost their jobs because of trade? Why not retrain those who have fallen victim to automation, illness or some other force? The package is both useless and provocative. Its existence invites antitrade rhetoric without offering any remedy.

Then there is geopolitics. For decades, US presidents have offered countries preferential access to the US market in exchange for their diplomatic support. During the cold war, the Asian Tiger export boom was underwritten by a US that was fearful they could be the next dominoes to fall to communist insurgency.

Ironically, Vietnam – the largest domino that fell – would today stand to benefit the most from TPP. Unlike the US, it suffers from high tariff barriers and gross domestic inefficiencies. It also borders China, which is not part of the TPP. At a time when Beijing is threatening its neighbours with annexation of contested atolls in the South China Sea, TPP would bind countries like Vietnam closer to the US. As Mr Obama has argued, the deal would be good for the US on diplomatic grounds. TPP would also be good for the US economy as a whole. But it would be of little help to the middle class. Only Washington can do that (by enacting a comprehensive retraining programme, for example).

Promising all things to all people often succeeds in the short term. But it suffers from the law of diminishing returns.