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Key Questions for Ron Kirk, Nominee for United States Trade Representative

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From negotiating global and bilateral trade talks to formulating and implementing U.S. trade policy, the U.S. Trade Representative (USTR) plays a critical role in helping America participate in world markets. Given the vital role of trade in countering the U.S. and global economic downturn, the USTR should serve as a strong advocate of free trade while addressing numerous issues, including ongoing trade negotiations within the World Trade Organization's (WTO) Doha Round; three pending bilateral trade agreements with Colombia, Panama, and South Korea; and a host of other trade issues requiring attention this year.

In order to determine where the next USTR stands on crucial issues, the following questions should be put to the nominee during his confirmation hearing:

Question #1: Free Trade versus Fair Trade

Protectionists and special interest groups have become increasingly vocal in asserting that U.S. free trade policies have been unfair to U.S. workers and businesses. Central to this assertion is the fact that some foreign workers are willing to work for lower wages than their U.S. counterparts. In addition, some countries do not maintain the same levels of environmental protection or labor standards as the U.S. In response, advocates of protectionist policies seek to drive up the price of imports by imposing tariffs to artificially raise prices or by requiring foreign governments to raise their costs of production by adopting more restrictive labor, environmental, and other standards. *Do you agree that free trade is unfair to American workers and businesses, and do you support protectionist measures to raise the price of imports?*

Answer: It is true that U.S. trade commitments to lower tariffs and other trade barriers have exposed some of America's producers to foreign competition, and in some cases, even driven them out of the marketplace. In many more cases, however, U.S. firms have responded by improving their products and their production processes. The resulting benefits for U.S. citizens have been twofold: First, workers have commanded increased wages on the basis of their increased efficiency and productivity. Second, consumers have benefited from the availability of better products at cheaper prices.

Introducing more stringent regulations into trade agreements will not make trade "fairer" for America. Indeed, such regulations will unfairly penalize American consumers and more efficient producers in order to benefit uncompetitive firms that need to boost their productivity. Trade liberalization has opened markets around the world to U.S. goods and services, created higher-paying jobs for Americans, and attracted the investment needed for long-term economic growth. America cannot

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afford to abandon open market policies. The major economic benefits of free trade derive from the differences among trading partners, which allow any country embracing world markets a chance to become competitive. Free trade is fair when countries with different advantages are allowed to trade and capitalize on those differences.[1]

It is true that, on occasion, unfair foreign competition can harm domestic business, just as there can be unfair domestic competition. However, U.S. free trade agreements (FTAs) and the WTO boast mechanisms designed to address these problems when they arise in connection with foreign trade.

Question #2: Multilateral Trade Negotiations

Is it your intent to make the timely completion of a substantial, comprehensive agreement within the current Doha Development Round of global trade negotiations in the WTO a top priority for the office of the USTR? What is your view on the role of a multilateral trade agreement in boosting U.S. and global economic conditions?

Answer: The absence of a comprehensive trade pact reduces countries' discipline in keeping a rein on protectionist measures designed to prop up domestic companies during the current economic slump. Moreover, without the new market access a multilateral deal would bring, it will be more difficult for firms struggling domestically to export instead. When all sales opportunities dry up, companies go out of business, jobs are lost, and the chance for economic recovery is postponed.

As its name implies, the current Doha Development Round was founded on the principle of promoting economic development and freer trade. With most countries' economic well-being linked through trade and investment, the need for all nations to embrace trade and investment liberalization has become even more critical to help the global economy recover from today's economic turmoil. The U.S. should commit to revitalizing multilateral trade talks in the WTO and should remain vigilant against implementing protectionist policies that could undermine economic progress. This is particularly important for America's long-term economic recovery. The sooner an agreement in the WTO can be reached, the faster the world can move on from today's economic downturn and the sooner the benefits of more open markets can accrue to developed and developing countries alike.[2]

Question #3: Pending Free Trade Agreements

Pending trade agreements the U.S. has signed with Colombia, Panama, and South Korea have become a focal point for political and popular backlash against free trade policies. Concerns that such agreements would result in unfair trade for America have left their future—and broader U.S. relations with the three signatory countries—uncertain. *Would you seek to abandon or renegotiate these agreements, or strive to gain congressional support for their ratification?*

Answer: As long as a global trade deal remains elusive, countries will look to bilateral and regional free trade arrangements to more quickly reap the benefits of lower trade barriers. Free trade agreements can bring both economic and strategic benefits to member countries, as well as help reduce trade restrictions globally by demonstrating solutions to difficult trade problems.

A trade agenda that includes timely ratification of the pending trade agreements with Colombia, Panama, and South Korea would demonstrate an economic and strategic commitment to important American allies and, more importantly, bring significant economic benefits to America's families.

The agreements with Colombia and Panama will result in significant new market access and lower tariffs for America's businesses and farmers: Most Colombian and Panamanian products already enter the U.S. duty-free under various preference programs, so any impact on U.S. jobs has already occurred. Instead, these agreements will result in new economic opportunity for America's exporters

1. Daniella Markheim, "Free Trade: The Fairest Trade Policy for America," Heritage Foundation *WebMemo* No. 2169, December 12, 2008, at *http://www.heritage.org/Research/TradeandEconomicFreedom/wm2169.cfm*.
2. Daniella Markheim, "The Importance of Reviving the Doha Round," Heritage Foundation *WebMemo* No. 2123, November 5, 2008, at *http://www.heritage.org/Research/TradeandEconomicFreedom/wm2123.cfm*.

and the U.S. businesses that support them—opportunity that will grow over time as these countries continue to develop through trade and mature into larger, more sophisticated markets more closely integrated with the U.S. economy.[3]

Similarly, through an FTA with South Korea, America can expand what is already a rich trade relationship. The agreement resolves many of the problems currently thwarting the full potential of U.S.-South Korea bilateral trade and establishes channels through which ongoing trade concerns can be addressed. Tinkering with the agreement for the sake of political advantage or what are effectively minor improvements is more likely to lead to no agreement rather than a better one and may place new barriers in the way of global talks for more open trade.[4]

Despite their many benefits, FTAs are not a perfect substitute for multilateral trade liberalization—they can discriminate against countries not party to the agreements and impose multiple sets of rules that can add to the cost of trade. The U.S. and other WTO members need to ensure that concluding the Doha Round takes priority over FTA negotiations.

Question #4: Renegotiating Existing Agreements

Campaign promises to renegotiate existing FTAs—NAFTA in particular—have met with some popular support. *Do you agree with the opinion that the rules of trade defined in NAFTA and other existing trade treaties should be rewritten?*

Answer: NAFTA and other FTAs the U.S. has in place have spurred competition, job creation, and economic growth. These agreements have an important role in maintaining American competitiveness and prosperity, spreading freedom around the world, and fostering economic development in poor countries. Similar to the objectives sought after by U.S. negotiators in the WTO, U.S. FTAs go beyond winning lower tariffs on American agriculture, manufacturing, and services exports: FTAs include provisions that safeguard investors from discrimination, increase regulatory transparency, combat corruptive practices, and protect and enforce intellectual property rights. U.S. trade agreements also include transparent dispute resolution and arbitration mechanisms to guarantee that the agreements—along with the rights of U.S. firms and consumers—are upheld.

While these agreements can always be improved, such an acknowledgement does not mean they are in need of repair. Indeed, reopening them is most likely to break them: If the U.S. demands to reopen NAFTA or other FTAs as a means to pull back from previous market access commitments, it is fair to expect that America's trade partners will retaliate with similar protectionist demands. U.S. trade agreements do not need to be renegotiated to make them better. Because economies evolve over time, NAFTA and the other FTAs have working groups and formal committees designed to ensure that the rules of trade defined in the agreements work effectively for all parties. More can be done to help U.S. families, workers, and business by vigorously supporting these efforts to keep trade free in the face of changing economic conditions than by opening them to an onslaught of special-interest demands for protection.[5]

Question #5: U.S. Trade Deficit with China

In 2008, the U.S. trade deficit with China will rise to more than $260 billion. *Do you regard the Sino–American bilateral trade deficit as a major prob-*

3. Daniella Markheim, "Free Trade Agreements: Promoting Prosperity in 2008," Heritage Foundation *Backgrounder* No. 2132, May 2, 2008, at *http://www.heritage.org/research/tradeandeconomicfreedom/bg2132.cfm*; James M. Roberts, "The U.S.–Colombia Free Trade Agreement: Strengthening a Good Friend in a Rough Neighborhood," Heritage Foundation *Backgrounder* No. 2129, April 30, 2008, at *http://www.heritage.org/Research/TradeandEconomicFreedom/bg2129.cfm*.

4. Bruce Klingner and Anthony B. Kim, "The U.S.-South Korea FTA: A Defining Moment," Heritage Foundation *WebMemo* No. 1413, April 2, 2007, at *http://www.heritage.org/research/asiaandthepacific/wm1413.cfm*; Anthony B. Kim, "The Korea–U.S. FTA: Greater Partnership for the Future," Heritage Foundation Commentary, March 7, 2008, at *http://www.heritage.org/press/commentary/ed030808d.cfm.*

5. Daniella Markheim, "Renegotiating NAFTA and Other U.S. Trade Agreements: Fixing What Isn't Broken," Heritage Foundation *WebMemo* No. 2116, October 24, 2008, at *http://www.heritage.org/Research/TradeandEconomicFreedom/wm2116.cfm.*

lem? Is it caused primarily by U.S. and Chinese trade policies or other factors? How do you intend to approach the bilateral deficit?

Answer: It is understandable that the size of the U.S. trade deficit attracts attention and concern. However, trade imbalances are not necessarily bad for an economy. In fact, since the 1970s, America's economic performance has been better in years where the trade deficit has grown than in years where the deficit shrank. Fundamentally, America runs a high trade deficit because domestic savings consistently falls short of domestic investment. Up until the recent financial crisis, America had a healthy, productive, and growing economy that demanded more investment than was supplied by domestic sources—the government and U.S. households. As long as that shortfall exists, America must import surplus savings from other countries—such as China—by running trade deficits. U.S. policymakers can best provide a long-term solution to the trade deficit not by introducing barriers to trade with China but by addressing the tax and spending policies that keep savings too low.[6]

While the U.S. saves too little, China saves too much. In the past, Chinese enterprises have been slow to reduce supply when confronted with weak demand. This delay helps create a vicious cycle where too little money is chasing too many goods, prices decline, households spend less as they wait for even lower prices, and so on. China announced its own stimulus package in November 2008 to help boost demand. However, "demand" does not usually involve domestic consumers. Instead, new lending and investment in infrastructure are focused on bolstering exports with no short-term benefits for consumers in China.

China needs to become more reliant on domestic sources of economic growth. Thus, the U.S. should encourage China to adopt strong and sometimes difficult measures to boost its consumption, such as slashing tariff and non-tariff barriers against foreign goods and reorienting credit policy away from producers and toward consumers.[7]

Question #6: China's Currency

In past sessions of Congress, Members of both the U.S. House of Representatives and the U.S. Senate have introduced legislation aimed at punishing China for unfair manipulation of its currency—and 2009 looks to be no different. These Members blame China's alleged currency manipulation for the bilateral trade deficit and loss of American manufacturing jobs. Accordingly, their proposals have included a wide variety of retaliatory measures such as anti-dumping duties, punitive tariffs, countervailing duties, trade and investment restrictions, disciplinary action in international bodies, and even open U.S. intervention in international currency markets. *Do you concur with the opinion that China's currency policy harms the American economy?*

Answer: In 2007, the U.S. and China combined accounted for more than 30 percent of gross domestic product (GDP) worldwide. The two nations share strong trade and investment ties, making the U.S.-China bilateral economic relationship perhaps the most important in the world. U.S. measures designed to penalize China for its currency regime would only strain that relationship, possibly sparking a trade war at both countries' expense. Moreover, most of the proposed punitive measures would add to the cost of living for American households and the cost of business for American companies while violating U.S. commitments in the WTO. None of the measures would boost U.S. manufacturing, exports, or jobs by making America more competitive. Congress should recognize that America's own policies affecting savings, government spending, and education have far more impact on the U.S. trade imbalance and international competitiveness.[8]

A far better approach is for the U.S. to remain committed to free and open markets while addressing trade tensions through the existing institutional

6. Daniella Markheim, "China's Yuan: Manipulated, Misaligned, or Just Misunderstood?" Heritage Foundation *WebMemo* No. 1608, September 11, 2007, at *http://www.heritage.org/Research/AsiaandthePacific/wm1608.cfm.*

7. Derek Scissors, "The Coming U.S.-China Trade Conflict," Heritage Foundation *WebMemo* No. 2172, December 12, 2008, at *http://www.heritage.org/Research/AsiaandthePacific/wm2172.cfm.*

8. Markheim, "China's Yuan."

framework for Sino-American economic relations. Retaining the Strategic Economic Dialogue (SED) or an equivalent offers a superior path to progress in bilateral talks. Enhancing negotiating authority within the SED would make it easier to conclude and implement policy changes to improve the bilateral relationship.[9]

The direction of the talks needs to focus on a narrow, feasible range of reforms. The U.S. can encourage China to move in the right direction by working to achieve long-term price liberalization, curbing state dominance at the corporate level, shielding American companies from mercantilist "reforms" adopted by the Chinese government, and restarting the process of opening the capital account to allow money to move freely in and out of the country. Successful gains on such targeted issues will help build momentum for sound economic policies in both countries.

The Need to Keep Markets Open. The best approach to ensuring that America continues to reap the benefits of international commerce is one that is based on a solid commitment to advancing trade liberalization. Without this commitment from the U.S., the pressure for erecting barriers to trade and investment both in America and around the world will build—especially now that most countries are feeling the bite of the global economic downturn. Perhaps even more important, advancing trade liberalization signals to the rest of the world that the U.S. will not abandon its mantle by turning inward but remains committed to global leadership. The USTR needs to be at the forefront of maintaining that leadership role.

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9. Derek Scissors, "U.S.–China Economic Dialogue: In Need of Tough Love," Heritage Foundation *Backgrounder* No. 2200, October 21, 2008, at *http://www.heritage.org/research/asiaandthepacific/bg2200.cfm.*