

Swine Flu and NAFTA will Continue...

Obama's trade stance keeps partners guessing

By Edward Luce

Published: May 8 2009 03:00 | Last updated: May 8 2009 03:00

During last year's US presidential campaign Austan Goolsbee, then Barack Obama's economic adviser, got into hot water when he told a Canadian diplomat not to pay too much attention to his candidate's tough rhetoric on the North America Free Trade Agreement.

Mr Obama's spin doctors quickly locked Mr Goolsbee away in a dark room.

A year later Mr Goolsbee, who is now at the Council of Economic Advisers, a group that answers to the president, is being vindicated. On Wednesday Mr Obama issued a statement on trade that contained little of the language he deployed on the campaign trail.

The president's statement also flagged up a new "plan of action" on three unconsummated trade agreements - with South Korea, Colombia and Panama - all of which are deeply unpopular with trade unions and all of which Mr Obama opposed on the campaign trail. Wednesday's statement followed a clear hint last month from Ron Kirk, Mr Obama's trade representative, that Nafta would not formally be reopened for negotiation.

"In consultation with the American people, the Congress, key stakeholders and our trading partners, I am developing a plan of action for pending free trade agreements," Mr Obama said. "I will also work with our trading partners to advance a strong market-opening agreement for agriculture, industrial goods, and services through the Doha development round and through other negotiations."

Trade watchers in Washington are split between those who believe Mr Obama is moving towards a Clintonite position in favour of new trade deals and those who believe the president is moving away from the protectionist wing of the party without developing a proactive new agenda on trade.

The former cite the fact that Mr Obama has signalled he has no intention to reopen Nafta for renegotiation on labour and environmental clauses - a red flag to Canada and Mexico. The bad news coming out of Mexico, which is suffering from lower worker remittances, declining oil prices and the swine flu outbreak, is likely to fortify that stance.

They also point to the fact that Mr Obama was at pains to reassure trading partners that he would make the "Buy American" provisions in the \$787bn fiscal stimulus compatible with World Trade Organisation rules. And they point to comments from Hillary Clinton, US secretary of state, in January about seeking "creative" ways to push through the trade deal with South Korea, which has also been attacked by unions.

Last month Mr Obama requested to sit next to Alvaro Uribe, president of Colombia, at a key summit dinner. The proposed deal with Bogotá has been lacerated by most Democrats, including Mr Obama during the campaign, because of the country's poor human rights record.

But others say that while Mr Obama is moving in a non-protectionist direction, he is unlikely to be a reincarnation of Bill Clinton, the president who clinched Nafta. "Obama is clearly doing what Austan Goolsbee said he would do on Nafta," says Adam Posen at the Peterson Institute of International Economics. "But it doesn't look like he is planning a big new drive on Doha or global trade - his statement on trade made no reference to the fact that world trade is collapsing."

Mr Obama is faced with two opposing constraints. First, he has a packed legislative agenda and would probably not want to overload Congress with measures, such as the Colombia deal, that would divide the Democrats and antagonise trade unions. The latter are already unhappy with the fact that Mr Obama looks unlikely any time soon to push through the "card check" law that would help raise union membership.

Second, Mr Obama does not want to start a trade war. His administration desperately needs the co-operation of America's main partners to help revive the world economy. And the US needs China, where, again, Mr Obama has soft-pedalled some tough campaign rhetoric, to continue to invest in US Treasury bonds. Any trade-related fallout with its main trading partners could be damaging to the US's incipient economic recovery.

"Obama is trying to thread the needle very carefully here," says Norm Ornstein, of the American Enterprise Institute. "On the one hand he doesn't want to reopen Nafta because that would alienate America's trading partners. On the other, it is doubtful he will make a big push to revive Doha."