



Obama to see light on trade

Despite the campaign rhetoric, the president-elect is likely to convert from protectionism, says Geoffrey Garrett

KEVIN Rudd and his Asia-Pacific Economic Co-operation and G20 colleagues have twice pledged loyalty to free trade. But the leader whose support matters most, US president-elect Barack Obama, was not there. What is worse, his protectionist rhetoric on the campaign trail has free traders worried.

As the credit crisis becomes a sharp US recession, Obama will have powerful political incentive to appease a middle America that believes free trade has done more harm than good.

But history in the form of the previous Democratic president, Bill Clinton, gives reason for hope that Obama will undergo a quick conversion from trade sceptic to free-trade champion.

The 1990s are looked back on as the halcyon days of free trade in America. What is often forgotten is that Clinton was quite protectionist on the electoral stump in 1992. But, once in office, he signed the North American Free Trade Agreement, ratified the Uruguay round of global trade liberalisation, helped create the World Trade Organisation and then pushed for China's entry into it.

The likely depth of America's economic downturn makes it unlikely that Obama will be a Clintonesque advocate of free trade. But concerns about rising American protectionism are overdrawn.

Three big issues on the American trade docket will give the world early answers on how far Obama will go towards free trade: whether to revive the Doha round of talks, whether to punish China for America's massive trade deficit with it, and whether to sign the

US-South Korea free trade deal.

The obstacles to completing the Doha round remain too large for Obama to become its cheerleader-in-chief. But like the two Bushes and Clinton before him, Obama is likely to resist the China-bashing temptation. On the positive side of the ledger, Obama can show his pro-trade leadership by quickly renegotiating the free trade agreement with South Korea into a form he can sign.

Doha ground to a halt because none of the major players — not only the US and the European Union but also China and India — have been willing to sacrifice treasured protections for their farmers.

Don't expect the election of Obama and the strengthened Democratic majorities in both houses of Congress to reduce the support given to American farmers. The farmers targeted with subsidies may change from Republicans on the Great Plains to Democrats in the Midwest. But farm support remains as American as motherhood and apple pie.

It is worth remembering that Obama, as a senator from one of America's biggest ethanol-producing states, Illinois, continued to champion subsidies for producers even as ethanol's environmental benefits were questioned and its impact on food prices became clear.

For more than a decade there have been two American trade policies where China is concerned. Democrats in Congress have complained incessantly about wages that are too low, product safety standards that are too lax, Chinese markets that are too closed, and a dollar-yuan exchange rate that is too high.

But the White House under both Clinton and Bush Sr ignored frantic congressional calls to do something about unfair Chinese competition. Instead, both presidents pursued the kind of softly-softly economic diplomacy that China's leaders prefer, embodied most powerfully in Treasury secretary Henry Paulson's strategic economic dialogue.

Even as America's trade deficit with China continues its inexorable rise towards an unthinkable \$US350 billion a

year, the smart money says Obama will keep to the Bush path of quiet engagement. Obama may try to roll together US-China co-ordination on the economy with co-ordination on climate change. But the economic interdependence between the US and China is just too great for the pragmatic Obama to jeopardise with too much tough trade talk.

If Obama can't complete the Doha round but resists the call to protectionist arms against China, finalising the US-Korea free trade agreement is Obama's best chance for positive action on trade.

He has come out against the deal negotiated by Bush, and not only because it does not include his blueprint for labour and environmental standards that he has said should be part of all free trade deals. Obama has criticised the deal for not opening up the Korean market to American beef and cars.

What Obama will try to do, and what the Koreans would be wise to accept, is to extract some concessions on beef and cars to show the public he is tough on trade, but then sign the deal to show the world he will support free trade.

Trade will not rise as high on Obama's economic agenda as stabilising the financial sector and stimulating the domestic economy. But his team of seasoned economic advisers, led by Clinton's Treasury secretary Lawrence Summers, will tell Obama he must continue to open the American economy to global trade.

Many economic historians believe it was the imposition of Smoot-Hawley tariffs that turned the 1929 Wall Street crash into the Great Depression. Obama went out of his way in the final months of the election campaign to cast himself as a smart and sensible problem solver rather than a left-wing ideologue. Resisting the protectionist impulse will give him an early and important chance to prove it in office.

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