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Guest Comment

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Bad Trade-Off

A Democratic Congress does not bode well for enhanced trade liberalization and foreign direct investment.

By Stuart Anderson

While pundits debate the political messages of Tuesday's election, less attention is being paid to the election's impact on key policy issues, such as international trade. Nationally, trade is one area that regularly gets obscured in the media coverage of campaigns. Yet how open America remains to the mutual benefits of international trade and foreign investment profoundly affects the welfare of people in this country and around the world.

In several places around the country, most notably Ohio and North Carolina, congressional candidates blamed international trade on local job losses. Prior to the election, former Clinton trade negotiator Mickey Kantor said, "If Democrats do as well as it appears, you're going to see more resistance to trade agreements." Indeed, with the Democrats taking control of the House and (apparently) the Senate, expanding free trade could become more difficult.

Following is a rundown of the key trade issues that will turn on the results of the 2006 election:

Trade Agreements. The absence to date of a multilateral agreement in the Doha trade round, where the goal is to reduce both agricultural subsidies for Western nations and trade barriers for the developing world, threatens the ability of Congress to pass any trade agreements. This is because the White House, in practice, must submit trade agreements to Congress prior to July 1, 2007, which is when the president's trade-promotion authority expires. Absent such authority — which a Democratic Congress may be unlikely to renew on terms acceptable to President Bush — a negotiated trade agreement could be amended by Congress, which would be unacceptable to other countries.

Foreign Investment. Six months after the aborted Dubai Ports World deal, the U.S. Senate passed the restrictive Shelby-Sarbanes bill. This bill contains several provisions that would inhibit investment in the U.S. by, for example, making government review-times longer when a foreign entity seeks to acquire a U.S. firm, or requiring that governors and members of Congress be notified whenever the federal government reviews certain foreign acquisitions of U.S. firms. Unless it is resurrected in a lame-duck session, the Shelby-Sarbanes bill is dead, in large measure because a competing measure

championed by the House leadership, with Democratic support, contained none of the Senate's harmful provisions. In a Democratic House, however, members may push a new foreign-investment bill that would be difficult for President Bush to sign. A Democratic election document stated the party's intention to "prevent outsourcing of critical components of our national security infrastructure — such as ports, airports and mass transit — to foreign interests that put America at risk." But while such measures may appear to be in the best interests of the U.S., in reality these are business and investment killers that fail to enhance our security.

China. While economists question the extent to which China is actually manipulating its currency, as congressional critics charge, businesses are alarmed at a Schumer-Graham bill in the Senate that would violate our international trade obligations by imposing significant tariff increases on Chinese products unless China changes its currency policies. This is an issue Democrats in Congress would be more willing to push than Republicans, despite its economically harmful impact on U.S. consumers and businesses.

Outsourcing. Although outsourcing has subsided as a political issue, bills to restrict state contract work from being performed outside the U.S. persist in many state legislatures. Local elections matter on this issue, as Republican governors in Colorado and Maryland have opposed anti-outsourcing legislation that newly elected Democratic governors in those states likely would sign. At the federal level, Democratic representatives and senators have introduced bills that would restrict sending personal consumer information outside the U.S., measures that could cripple the U.S. financial services industry.

It is an open question whether Congress will act on certain trade issues in a November "lame duck" session, when U.S. companies will push for normal trade status for Vietnam, a bilateral trade pact with Peru, expanding the inadequate quotas on H-1B visas and green cards for skilled foreign-born professionals, and other business priorities. There's also the issue of renewing the Generalized System of Preferences, which allows U.S. consumers to receive duty-free imports on many products from developing nations. Failure to extend or renew this system, which expires on December 31, 2006, would be the equivalent of a tax increase on American consumers and companies buying goods from India, Brazil, and certain other countries.

Economists agree that since World War II, expanding global free trade has been the trend in each presidential administration. The Bush administration, however, has few trade successes to its name. Instead, it has received a few black eyes on the free-trade front, such as the perceived mishandling of the Dubai Ports World controversy and the decision to slap tariffs on steel imports.

In the last two years of an administration it is natural for a president to seek achievements on international affairs, with liberalization of trade traditionally a source of such success. But this prospect is in jeopardy given the results of the 2006 midterm elections.

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