



Agenda for Shared Prosperity

EPI Recommendations for the Obama Administration

By Robert E. Scott

[Economic Policy Institute](http://EconomicPolicyInstitute.org)

Washington, D.C.

epi.org

Trade and Competitiveness Policy Recommendations

Restoring broadly shared prosperity within a globalized American economy requires bold thinking and bold solutions. For example, a key strategy to reduce our chronic trade deficits and growing foreign debt would be reducing our reliance on imported energy. Stimulating a nascent renewable energy industry that depressed the consumer appetite for fossil fuels is sound strategy both in fighting global warming and for improving American competitiveness.

One of the top priorities for trade policy in the Obama Administration should be the reduction and elimination of our large and unsustainable trade deficits. These deficits are the result, in part, of currency manipulation and other unfair trade policies of a number of our trading partners, especially China and other Asian countries.

New Responsible Trade Policies

Within the first ninety days of taking office, the new USTR should:

- Declare a “strategic pause” in negotiating new trade agreements.
- Initiate a review of all existing U.S. trade agreements, including the Uruguay round and all subsequent WTO accession agreements. The Review should an analysis of their impact on the following: domestic employment and wages, bilateral trade and investment flows, worker rights, environmental standards and practices, consumer safety, and impact on migration patterns.
- Institute a review of all pending free trade agreements.
- Enter new negotiations to replace NAFTA with a more comprehensive agreement that establishes, at a minimum, a “bill of rights” for citizens of North America, enforceable in all three countries, and a commitment by the United States and Canada to provide substantial long-term aid to Mexico to nurture higher and sustainable economic growth – similar to the assistance the EU provided Ireland and Portugal in its economic integration process.
 - **NOTE.** The USTR has promoted biased and inaccurate claims about the benefits of NAFTA, with no recognition of its negative consequences for workers or farmers throughout the hemisphere (see NAFTANOW.ORG), despite widespread



criticism of its negative impacts, especially in Mexico (see Faux, *et al* 2006 and Papademetriou *et al* 2003). The USTR's office in the Obama Administration should immediately review and revise or take down all misleading, pro-NAFTA materials and reports.

The Obama administration should take the following additional steps.

- The Treasury should immediately review and update the most recent “[Report to Congress on International Economic and Exchange Rate Policies](#).” There is ample evidence that China maintains large and persistent current account surpluses and is engaging in massive foreign exchange intervention in order to maintain a weak real exchange rate. China meets the standards set out in section 3004 of the Omnibus Trade and Competitiveness Act of 1988 of currency manipulation, and should be so identified by Treasury
- The administration should ask Congress for the authority to impose trade sanctions, including tariffs, on China and other countries¹ that are engaging in currency manipulation.
- Open new global trade talks intended to close the U.S. trade deficit, similar to the Plaza Accord negotiated by Treasury Secretary James Baker in 1985.
- The Columbia FTA should be renegotiated, but if and only if it ends assassinations and other violence against labor leaders and brings to justice those responsible for such crimes, including members of the military and the government, and ends repression of judges who are enforcing the law. The FTA must be revised to require that Columbia adopt and enforce the International Labor Organizations core labor standards before that agreement is submitted to Congress for approval.
- Renegotiate the FTA with South Korea to address problems in the motor vehicle sector and to ensure that labor rights are protected and enforced by that country. In addition, measures to address structural current account imbalances through exchange rate re-alignment must be included in the agreement. The Korean won recently fell to its lowest level in 8 years, losing more than 30% of its value since December 2008. If sustained, such realignments can bring about large, unsustainable trade imbalances. Future trade agreements must include measures to redress destabilizing shifts in exchange rates.
- Shelve “fast-track” trade authority for the president in favor of congressional approval based on key negotiating milestones, including enforceable labor and environmental standards, protections against currency manipulation, and reciprocity in open markets and enforcement provisions. The new administration should support passage of the recently introduced Trade Reform, Accountability, Development and Employment Act.
- Review and revise the H-1B “guest worker” program, with no new applications accepted during this review. Revise the L-1 guest worker program to reduce its use and better protect U.S. workers against displacement.



China Policy

The U.S. trade deficit with China accounts for over half of our non-oil goods deficit. The Obama administration needs to develop new policies to bring an end to the Chinese government's unfair trade practices (currency manipulation, illegal subsidies, worker rights violations, and lax enforcement of environmental and consumer safety standards). In addition to the currency measures discussed above, the U.S. government should implement the following new policies.

The new administration should urge Congress to act quickly on the Fair Currency Act of 2007, S. 796, introduced by Senators Stabenow, Bayh, and Bunning. This legislation would provide WTO-consistent remedies to treat currency manipulation as an actionable subsidy. Despite some moderate revaluation of the renminbi during the last two years, the exchange rate between the dollar and the renminbi remains significantly out of equilibrium (estimates by Cline and Williamson (2008) show that the renminbi is undervalued by about 25%, even at current exchange rates), as demonstrated by the Chinese government's continued interventions into the currency market, its accumulated foreign exchange reserves -- now in excess of \$2 trillion -- and its annual trade surplus with the United States.

In order to demonstrate to the Chinese government a new commitment to promoting respect for workers' human rights, the Obama Administration should accept for review the AFL-CIO's Section 301 case (last filed in 2006) alleging that the Chinese government's systematic and egregious violation of workers' rights is an unfair trade practice, harming American businesses and American workers, as well as Chinese workers who do not have the right to form independent unions or bargain collectively with their employers.

In China, weak environmental standards and an even weaker enforcement regime present a challenge with worldwide consequences, especially when it comes to climate change.

Because of China's size, geopolitical importance and emergence as the world's largest emitter of carbon, no global agreement on carbon emissions and climate control will be effective unless China takes on binding targets. An international emissions-control scheme led by the United States and China is necessary to ensure that binding emissions caps do not have adverse consequences while developing nations ramp up energy-intensive production. It is important that international competitiveness provisions, including border adjustments, go into effect simultaneously with the implementation of carbon pricing or cap and trade systems.

Illegal subsidies continue to be a major problem in our trade relationship with China. For example, Haley (2008) has estimated that the Chinese steel industry alone received more the \$15 billion in energy subsidies in 2007. While USTR initiated several WTO challenges in the last couple of years, more needs to be done.



One relatively simple step would be to officially change the Commerce Department's policy with respect to CVD law and non-market economies. Recently, Commerce has agreed to apply CVD law to China, but this is being done on an ad hoc basis, and has not been officially adopted. Commerce should issue a Policy Bulletin stating that its policy is to apply CVD law to non-market economies.

There are also problems with how the CVD law is being applied to China. The Assistant Secretary for Import Administration in the Commerce Department has chosen an arbitrary date -- the date when China acceded to the WTO -- to determine if a subsidy can be countervailed. Because the Chinese government provided vast subsidies prior to that arbitrary date, the CVD law does not provide relief to counter such pre-existing subsidies. Commerce should issue a change in policy by notice and comment in the Federal Register or in an ongoing case.²

Also, Commerce is wrongly adjusting for inflation when it relies on an interest rate from a market economy to determine if a loan is a subsidy. This lowers the amount of the actionable subsidy. This can be rectified by issuing a change in policy stating its intent not to adjust its benchmark interest rate for inflation by notice and comment in the Federal Register or in an ongoing case.

The President should also consider taking the following unilateral actions with respect to China:

- Reinstate Section 421 safeguard cases designed to protect against destabilizing import surges from China. Several of these cases were rejected without basis by the Bush Administration despite unanimous recommendations from the U.S. International Trade Commission.
- Prohibit the federal government from purchasing products or services from China if dialogue does not yield satisfactory results with respect to currency revaluation. (China is not a signatory to the WTO Procurement Code);
- Direct U.S. banks to pause in issuing loans to China;
- Pressure the IMF to consult with China on currency issues;
- Address the undermining of China's non-market economy status under the AD law by not permitting requests of individual Chinese exporters that they be treated as if operating in a market economy. This can be done in an ongoing proceeding.

Reorganize U.S. Trade Regime

- Create congressional Select Committees on Globalization to integrate the work of multiple committees dealing with trade and economic issues, to develop legislation that refocuses globalization from deal-making to economic policy.
- Relieve the Office of the U.S. Trade Representative of its cabinet rank, replacing it (and the Commerce Department) with a new department of industry and trade, with a mandate to support job creation in the United States. The new department should include a new division to enforce U.S. trade laws and rights under current agreements. This department



will identify areas (such as currency manipulation) where new enforcement tools are needed.

- All of the existing trade advisory committees (including the President's Advisory Committee on Trade Policy and Negotiation and the industry trade advisory committees) should broaden their membership to include labor, consumer, and environmental representatives, in addition to corporate members.
- One of the major problems in fair trade enforcement is that the globalization of investment and production has eroded links between what is in the best interest of U.S. corporations and the national interest in the U.S. in maintaining fair trade standards that support domestic production and jobs. U.S. antidumping and countervailing duty laws are based on the frequently outdated requirements that at least 25% of "domestic producers" (defined to include firms, unions or groups of workers) support a complaint.³ Given that foreign-owned producers now or soon could control more than half of domestic production in major industries such as steel and autos, and that U.S.-based firms manufacture a significant share of products sold in the U.S. overseas, it may be difficult or impossible to assemble viable coalitions of petitioners in these trade cases. Union membership is limited in many industries, and labor organizations usually do not have the resources needed to file fair trade petitions. Hence, there is tremendous need to identify alternative groups that could have standing and resources needed to file complaints, and to channel resources to needy petitioner groups.

A two part solution is needed. First, the list of eligible petitioners could be expanded. States and cities could be given standing to file petitions. The administration could also consider creating an independent agency charged with identifying potential cases with national interest but fragmented groups of domestic producers. Second, a source of dedicated resources could be created (e.g. from antidumping and countervailing duties collected but not distributed to producers) and used to help fund the costs of filing anti-dumping petitions. In addition, more aggressive import monitoring (of volumes and prices) could help identify products that may be ripe for cases.

Other steps are also need to limit the influence of foreign-owned firms in enforcement of domestic fair-trade cases and to address standing issues. The Commerce Department could reinstate a bright-line standard for not considering opposition to a petition from U.S. producers who are related to foreign producers subject to investigation or who are importers of product subject to investigation (this was the standard adopted by Commerce previously but since abandoned after the crude oil petition). The standing rules could also be modified so that opposition by a company's management which is related to a foreign producer or an importer itself does not neutralize worker support. Commerce could also develop sampling approaches that permit fragmented industries to get cases initiated without demonstrating 25% of industry support.



- A key threshold issue for USTR would be prioritizing a much more aggressive approach in the on-going Rules negotiations and Dispute Settlement Understanding negotiations at the WTO. While even the current administration has recognized the problem of WTO dispute settlement panels and especially the Appellate Body overreaching their mandate and imposing new obligations that we did not agree to in the Uruguay Round, and that seriously limit the effectiveness of our trade remedy laws, the proposals currently on the table in the negotiations will not lead to the rebalancing of rights and obligations that is needed. Much less will it lead to improvements beyond what was agreed to in the Uruguay Round. To the contrary, other countries have put much more effort into further eroding our ability to use trade remedy laws than the U.S. has put into preserving and strengthening that ability. So that would be one area of overarching political commitment and resources commitment that would be important. Even with a strategic pause on the broader trade agenda, a much more active posture by the US on the Rules negotiations is important.

New Global Rules

- Insist, as a condition for U.S. participation, that any future WTO trade negotiating round include provisions for international labor rights.
- Influence the World Bank and the IMF to abandon export-led, one-size-fits all development, and to promote programs that allow governments in poor countries to work through development paths more suited to their local conditions.
- Promote a high-level international planning group to develop a more stable and equitable global financial system, declaring that the United States no longer will act as banker to the rest of the world, printing more dollars to pay for its imports.

New Competitiveness Policies

- Eliminate perverse tax incentives that favor overseas investments, and consider instituting value-added taxes that favor exports over imports, as other nations do.
- Support effective research and technology development that would be channeled to production in the United States.
- Re-emphasize locally based manufacturing extension services to provide technical, managerial and financial assistance to small and medium-sized firms producing in the United States.
- Launch a national energy development program, based on the Apollo Alliance, to kick-start and nurture a series of 21st century industrial sectors devoted to the generation of alternative energy that can spur technological advances and generate high-wage jobs.



- Fully fund the Advanced Technology Vehicle Manufacturing Incentive Program so that auto companies and suppliers can re-tool older facilities to produce fuel-efficient vehicles and major components in the United States.

Restore the Social Contract

- Upgrade transition assistance for workers who lose their jobs, improving both training and income supports.
- Revive worker bargaining power by passing the Employee Free Choice Act to make it easier for workers to join unions, outlaw permanent replacement of strikers and broaden the category of workers who can bargain collectively.
- Provide a baseline level of economic security for all citizens that does not depend on their specific job, while also removing the incentive for firms to improve competitiveness by shedding their responsibility for this security, by making health care and pension benefits universal, and funded through contributions from business, individuals and government.

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¹ See Cline and Williamson (2008, Table 2) for other countries with substantially undervalued currencies.

² The change would be to follow normal agency practice: take the total amount of a subsidy given at a particular time ("nonrecurring") and spread it out over a period of years that equal the average useful life of the equipment in the industry at issue (e.g., if a subsidy for \$100 million was given in 1990 in an industry where the average useful life of equipment is 10 years, then in a CVD case covering the year 2000, \$10 million of that subsidy amount will be countervailable).

³ "Qualified interested parties include: (1) a manufacturer, producer, or wholesaler in the United States of a domestic like product; (2) a certified or recognized union or group of workers that is representative of the industry; (3) a trade or business association a majority of whose members manufacture, produce, or wholesale a domestic like product; (4) a coalition of firms, unions, or trade associations as described above; and (5) in cases involving processed agricultural products, a coalition or trade association representative of processors, or processors and producers, or processors and growers." (USITC 2007, I-3, note 1). "The statute states that a petition must be filed *on behalf of* an industry. A petition is deemed to have been filed on behalf of an industry if "(i) the domestic producers or workers who support the petition account for at least 25 percent of the total production of the domestic like product, and (ii)



the domestic producers or workers who support the petition account for more than 50 percent of the production of the domestic like product produced by that portion of the industry expressing support for or opposition to the petition.” (USITC 2007, I-6)