

United States Senate
Committee on Finance



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SENATOR CHUCK GRASSLEY
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I'm grateful for this opportunity to discuss our trade agenda.

One of my highest priorities on the Finance Committee is to strengthen the competitiveness of the American workforce, and that priority extends through each area of the Finance Committee's jurisdiction—tax, healthcare, and trade.

We can strengthen the competitiveness of our workers by reducing the tax and regulatory burdens that employers face in the United States, and by eliminating foreign barriers to U.S. exports.

This has been one of my driving principles as both Chairman and as Ranking Member of the Senate Finance Committee.

I was frustrated in the last Congress by how little we achieved on trade. We started this Congress with a lot of unfinished business.

So, I began this year determined to help create a new impetus for trade. With the recent deterioration in our national economy and the global economy, it's even more essential that we take prompt action to create new market opportunities for U.S. exporters and their workers.

I also felt it was essential that we attend to the legitimate needs of our workers who are displaced by trade. While folks may debate the extent of that impact, it's clear that some U.S. workers are adversely impacted by trade.

It's also clear that changes in the composition of the U.S. workforce over the last 45 years resulted in changing needs for our workers displaced by trade.

That's why I committed myself to working with my colleagues on the Senate Finance and House Ways and Means Committees to develop compromise legislation to reauthorize and expand our Trade Adjustment Assistance programs.

And, as you know, we were successful. We achieved a meaningful reform of Trade Adjustment Assistance that will benefit American workers for years to come.

I'm proud of that effort. It was truly bipartisan and bicameral. I can't imagine a more successful collaborative legislative effort.

After our achievement I thought we had created real momentum for continued collaboration across the aisle to address the remaining items on our trade agenda.

It's actually the second time in recent years that I thought we had created real momentum for advancing our trade agenda. The first time was on May 10, 2007, when the Bush Administration reached a bipartisan / bicameral compromise with congressional Democrats to re-address several issues in our pending trade agreements, including labor and the environment.

That was a difficult compromise for me to accept. But I did, and yet all we have to show for that effort so far is implementation of our trade agreement with Peru.

In any event, when it comes to trade, it's essential that we have a collaborative process. Without a bipartisan consensus that includes the White House, we're not likely to get trade legislation through this Congress.

It's now been four months since President Obama signed our TAA reform legislation into law.

Unfortunately, events since then demonstrate that the White House is not really interested in pursuing a positive trade agenda at this time, and neither are House Democrats.

We've heard the rhetoric of engagement, but seen no real action toward achieving positive outcomes.

Even though we have meaningful market opening opportunities at hand in the form of our pending trade agreements with Panama and Colombia, as well as South Korea, all we've seen is false starts from the Administration and backsliding from Democrats in the House.

During the recent Finance Committee hearing on the Panama trade agreement, we learned that our trade agenda is on hold until the President determines how international trade fits into his domestic agenda.

I fear we will be waiting a long time for the results of that determination.

Yet, our exporters and their workers don't have time to wait.

In 2008, exports contributed the most to U.S. economic growth in decades. But this year, we've seen that contribution plummet.

In April, our exports dropped to the lowest level in almost three years.

That's not acceptable. We can't afford to wait in promoting our trade agenda—if we do, we just risk being left behind.

Our trading partners certainly aren't waiting for us. They're actively negotiating new trade agreements. For example, Canada is negotiating with Panama and has completed negotiations with Colombia. The European Union is negotiating with Colombia and is at the tail end of negotiations with South Korea, while Australia is commencing negotiations with South Korea.

We've been a wallflower at this dance before. After the President's trade negotiating authority lapsed in 1995, we were sidelined. By the time that authority was restored in 2002, our trading partners had concluded approximately 130 trade preferential trade agreements compared to just three for the United States.

With 95 percent of the world's consumers living outside the United States, and higher economic growth rates projected for dynamic economies in the developing world, we can't afford to be on the sidelines.

It's imperative that we maintain a leadership role in expanding global commerce and the rules of international trade. Otherwise, we risk being superseded and our farmers, manufacturers, service providers, and their workers will lose out to global competitors.

We need to think about where we want the U.S. economy to be—not just next year, but over the next 50 years. The extent to which we remain engaged and lead the expansion of international trade will be pivotal in that calculus.

Now, I understand that in whitewater rafting, the way to maintain control is by paddling so that your raft is travelling faster than the surrounding water.

In the raging river of globalization, the last thing the United States should do is keep our economic paddles in the raft.

We are in need of real leadership to ensure that the United States remains at the economic forefront in the coming decades. But the President and his advisors are sidetracked by political considerations.

Many Democrats and their union supporters have made trade the scapegoat for the last 20 years, as if holding up a trade agreement will somehow keep jobs here in the United States.

That's not how it works economically. It may be a political deliverable to hold up a trade agreement, but it's not going to help American workers.

Take our pending trade agreement with Panama. The Panama Canal expansion project is proceeding whether or not we implement our pending trade agreement.

U.S. equipment makers like Caterpillar are at a disadvantage in seeking export sales in Panama without the benefits of that trade agreement.

And those exports would help sustain and perhaps expand the number of good-paying jobs here in the United States. Yet that fact seems to fall on deaf ears.

It doesn't make economic sense. It doesn't serve our national interest. Yet, it's a political deliverable, and it appears that that's the way it's going to be for the foreseeable future.

Even though it may fall on deaf ears, I want to take a moment to rebut some of the arguments of the trade skeptics.

First, our trade agreements typically level the playing field by giving U.S. exporters the same type of open market access that we already give to foreign suppliers in the U.S. market.

Yet the trade skeptics argue that given the magnitude of our global trade deficit, the last thing we should do is implement new trade agreements.

But that argument is based on a false premise. It suggests that trade agreements translate into trade deficits. I dispute that.

Consider our trade agreement with the countries of Central America and the Dominican Republic. Before implementation, we ran a cumulative trade deficit. Following implementation, we enjoyed a trade surplus of about six billion dollars last year.

That's what happens when you level the playing field for U.S. exporters.

But the skeptics will point to our trade deficit with Mexico and argue that we wouldn't have such a deficit if not for the North American Free Trade Agreement. They'll note that before NAFTA, we had a relatively small trade surplus with Mexico.

Again, I question the validity of that causal inference.

Before NAFTA, over 51 percent of imports from Mexico entered the United States duty-free, and the average tariff on the remaining imports was about 4.2 percent.

In contrast, Mexico had an average tariff of about 12 percent on imports from the United States before NAFTA.

But with NAFTA, this tariff disparity no longer exists. And as a result, our exports to Mexico have increased significantly, particularly with respect to agricultural products.

If we had never implemented NAFTA, would we have substantially altered the growth of international supply chains? I doubt it.

If NAFTA had not been implemented then the trade deficit we see with Mexico today would be shifted to some extent among other countries—but without the increase in exports to Mexico that our exporters enjoy today.

Moreover, oil and gas imports are a big part of our recent trade deficits with Canada and Mexico, and I doubt that the absence of NAFTA would have changed that significantly.

Trade is often more complicated than a bilateral trade balance suggests. That's true even of our trade deficit with China.

We've seen our bilateral trade deficits with other countries in Asia decline, even as our trade deficit with China has increased.

Now, that's not meant to excuse Chinese currency manipulation.

I remain critical of Chinese exchange rate policies.

And, I will be looking to the next round of the Strategic Economic Dialogue with China at the end of July for a clear indication from the Chinese of how further liberalization of its currency exchange rate regime fits into coordinated efforts to rebound from the global economic downturn.

But in our globalized economy, I do recognize that trade relationships are more complex than snapshots of bilateral trade balances indicate on their face.

Another argument of the trade skeptics is that our agreements erode U.S. sovereignty by impairing our ability to regulate U.S. health and environmental safety. Yet in the few instances in which a domestic health or safety provision has been challenged, the United States has won every time.

The recent decision under NAFTA involving a claim brought by a Canadian mining company reaffirms this. Our success in that case demonstrates yet again that nothing in our trade agreements prevents us from maintaining strong legal protections for the environment and public health.

That probably won't silence the critics, but that's the reality. The trade skeptics will probably continue to distort the truth for political advantage, while the facts belie their rhetoric.

Unfortunately, in this political landscape, the skeptics appear to have the upper hand. It's evident that the Administration is unwilling to incur the political cost to implement our pending trade agreements at this time.

Maybe we'll get to the Panama trade agreement next year, but I doubt that the current Congress will take up the Colombia trade agreement. And, I have no sense that the Administration has a plan for proceeding on our trade agreement with South Korea.

So, in the meantime, it is incumbent on those of us who appreciate the positive contribution that trade has played—and can continue to play—in our national economic prosperity to debunk the myths, unravel the distortions, and highlight how much we stand to lose if we cede our leadership role in promoting further trade liberalization.

I hope that those who are like-minded will join me in this effort.

Obviously I am not happy about having our pending trade agreements put on the shelf. But I do commend President Obama and Ambassador Kirk for their initiative to restart the stalled Doha Round negotiations in the World Trade Organization.

A fresh approach was needed. I think our major trading partners appreciate that now. I support the President's efforts to bring clarity to the negotiations so that we understand fully what new market access opportunities will be included if a deal is reached.

Without that understanding, I don't see how the United States Congress would support an outcome in the negotiations. I can't predict how long the negotiations will go on, but if there's an understanding in the room that last year's ambiguities are a non-starter, then maybe we do have a chance of successfully concluding the Doha Round.

I also support the President's decision to reengage in the negotiations for an Anti-Counterfeiting Trade Agreement. And, I hope that he will soon reengage the United States in negotiations for a Trans-Pacific Partnership Agreement.

If we can't proceed bilaterally, then at least we should continue to engage on the multilateral trade front.

Let me turn now to other aspects of our trade agenda.

As you probably know, I have long been thinking of how we should reform our trade preference programs, with the Generalized System of Preferences being the key driver in that effort.

Roughly a dozen GSP beneficiaries account for roughly three quarters of the trade benefits, yet there are over 130 eligible beneficiary countries under GSP.

I think we should examine ways to spread the benefits more broadly.

I also think that the United States should legitimately expect more reciprocity from advanced developing countries that benefit from an open system of international trade.

At some level, why should we continue to provide unilateral trade benefits to advanced developing countries absent some reciprocity? We can debate what that level should be, but I think the point is a valid one to consider.

I am working to develop my ideas more concretely. Once I've done that, I will engage Senator Baucus to see if we can work together, as I always do. The Finance Committee calendar is crowded, but I hope to start that conversation this summer.

I'll note that there are a number of other issues to think about in reforming our preference programs—for example, whether to address the differences in eligibility criteria and product coverage among the various programs.

I'm not prepared to discuss those issues today, but I want to acknowledge them. There are two other issues I will address, however.

The first is the Andean Trade Preference Act. President Obama is required to render some determinations with respect to Bolivia and Ecuador by June 30th.

As you'll recall, Bolivia's benefits under ATPA were suspended after the country was identified by the State Department as failing demonstrably to adhere to its obligations under international counternarcotics agreements.

I am unaware of any action taken by the government of Bolivia since then to suggest that Bolivia is now meeting its international counternarcotics obligations. If that is in fact the case, then I don't see how Bolivia can be found to be in conformity with the eligibility criteria under ATPA.

If in the future we do see positive action by the government of Bolivia to meet its counternarcotics commitments, I'll stand ready to work with the Administration to respond to such constructive engagement. But right now, that's not the case.

Second, you may be aware that the Administration worked with House Democrats to add Reconstruction Opportunity Zone legislation to a separate bill authorizing additional aid for Pakistan and Afghanistan, which passed the House last week.

I am extremely disappointed that the Administration chose to jam the ROZ legislation through in this manner.

At no point did the Administration make any attempt to engage me on this issue, despite the well-known differences between the House and Senate ROZ bills with respect to labor provisions.

The process they've chosen is a repudiation of the bipartisan, bicameral approach to trade with which we began the year.

I don't understand why they chose this process, but as I indicated, they never asked me. In any event, it is unclear to me at this time how the Senate will proceed with respect to the ROZ legislation—particularly given my broader interest in preference program reform.

I'm going to discuss this issue further with Senator Baucus once we get a breather from the ongoing effort on healthcare.

Finally, I'll note that I continue to engage with Senator Baucus in a joint effort to develop customs reauthorization legislation. Our staffs are working intensively on this, and I expect we will have a bill in the next work period.

I think I'll stop there and am happy to answer a few questions. Thank you for your time and attention this morning.