

Dem's in power

Is our FTA under threat?

STALEMATE is the word that would best describe the state of the US policymaking in the next two years as an emboldened Democrat-controlled house of representatives and equally split senate takes on an embattled president for the remainder of his time in office.

There may be major policy changes when it comes to the hotspots of the world such as Iraq, Iran and North Korea where President George W. Bush's policy has been criticised as failures.

For the rest of the world, the impact on foreign policy is likely to be minimal because the US constitution gives the executive much of the power to conduct international relations.

When faced with a determined president like Bush it is not likely that the Democrats and their strongly opinionated speaker Nancy Pelosi can do much to change the President's international relations plans.

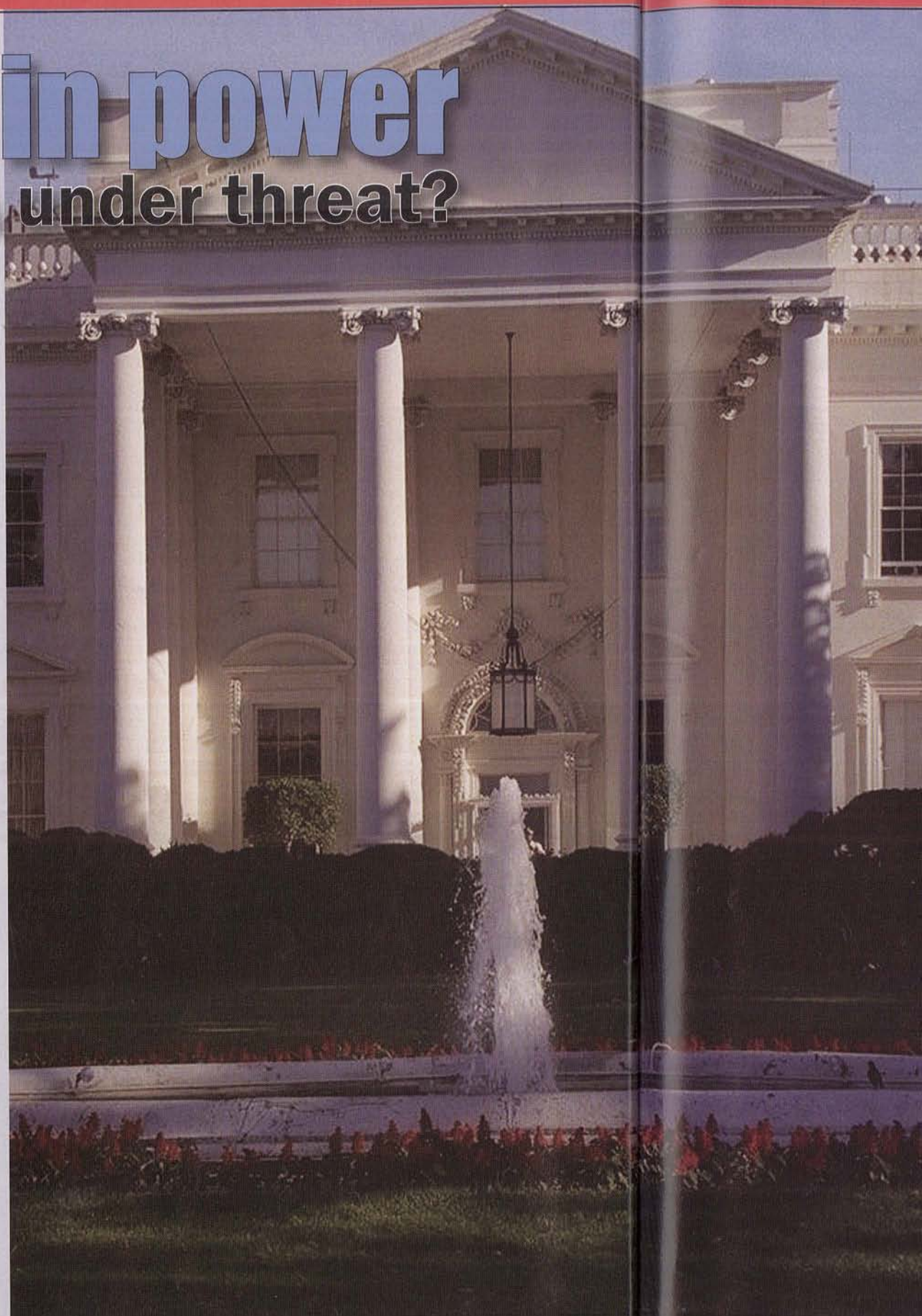
However the House and Senate will have a lot to say when it comes to negotiations of trade agreements and here is where the effect will be most felt by trading nations like Malaysia.

Obviously the main focus will be trained on China and Japan and their massive trade surplus with the United States, but the Democrats may put in jeopardy all the Free Trade Agreements that are already on the negotiations table and that includes Malaysia's.

According to the Brookings Institution, an independent think tank and policy research body, the changes which will be felt most is in the sphere of international trade.

According to the institutions commentary in December 2006 on the implications of the Democratic victory on Asia by Robert Sutter, the Democrats are likely to focus on improving working conditions in the US by re-looking minimum wage and what it feels as unfair trade advantages of the country's main commercial partners.

Sutter, who is also a Visiting Professor



of Asian Studies at Georgetown University's School of Foreign Service, the Democratic majority is forecast to "pursue strong trade and economic measures that if successful will seriously disrupt U.S. economic relations with the region and the free trade emphasis of the Bush administration".

Political commentator Thomas Friedman has gone so far as to predict civil war in American politics over the massive U.S. trade deficit and related economic issues with China.

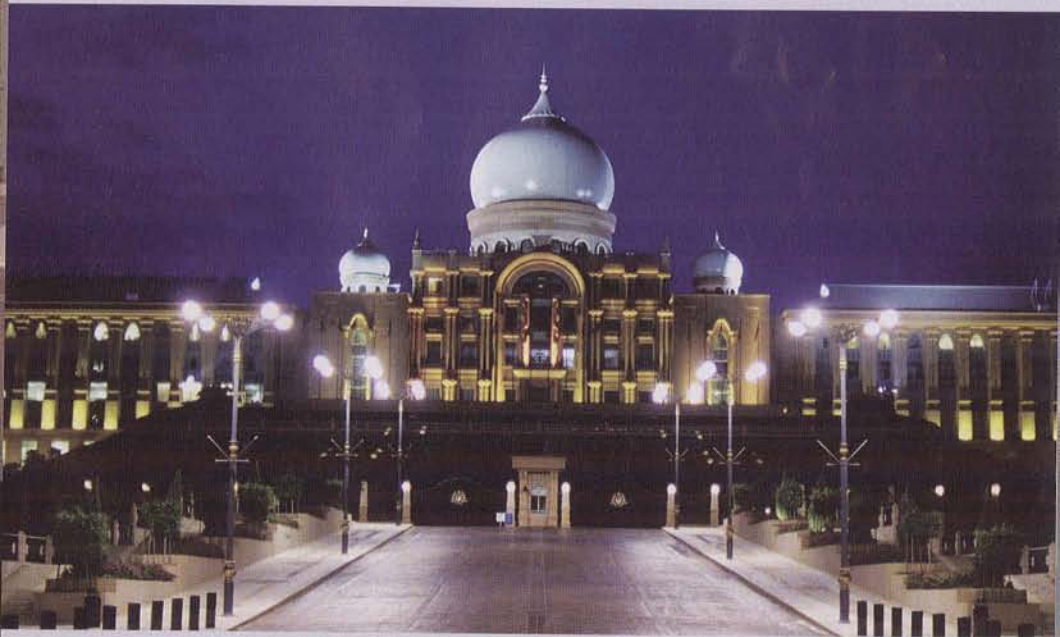
"The election means that the president's trade agenda has come to a screeching halt," is the opinion of Daniel Griswold, director of trade policy studies at the free-market Cato Institute.

round' after the US elections, his spokesman Peter Power said in Brussels.

But the clock is now ticking before Bush loses his 'Trade Promotion Authority' at midnight on June 30. Under TPA, the administration can fast-track trade pacts through Congress without amendment.

Already on the table are FTAs with South Korea, Thailand and Malaysia. The authority expires in mid 2007 and without it congressional approval of these agreements will not be so certain and others being considered by the Bush administration in Asia are less likely to even get a foot in.

This is why some local observers believe that the FTA negotiations should be concluded by that time but as Malaysia's International Trade and Industry Minister,



However he tempered this with: "Divided government will mean no bold trade liberalisation, but no bold protectionism either. We're looking at two years of stalemate in US trade policy."

Moody's Investors Service economist John Lonski said wrenching job losses brought about by globalisation had reverberated in the mid-term US election.

"My sense is that a lot of seats the Republicans have lost, in places like Indiana, Pennsylvania and Ohio, were in a large part the consequence of a persistent exit of manufacturing activity to cheaper sites in China," he said.

For European Union Trade Commissioner Peter Mandelson, there is a "brief window of opportunity" to revive the World Trade Organisation's ailing 'Doha

Datuk Seri Rafidah Aziz pointed out, it is not likely that all the points would have been sorted out by that time.

This could have implications to our trading relationship with the world's largest economy.

US Trade Representative Susan Schwab said last month that whatever the election's outcome, there would remain a 'critical mass' of support for free trade among both Democrats and Republicans.

Although it may have limited impact on Malaysia, a Democratic-led House and Senate is likely to focus on such domestic issues as raising the minimum wage, controlling government spending deficits, strengthening job security for U.S. workers, preserving Social Security, and providing limited tax relief for middle class ▶▶▶

taxpayers. Finding ways to change the adverse course of the U.S.-led war in Iraq dominates the foreign policy agenda.

Against this background, most issues affecting Asia receive lower priority.

Their main concern in Asia would be finding ways to deal more effectively with the massive U.S. trade deficits and perceived unfair trade and economic policies regarding countries in Asia, notably China but also including Japan.

Unlike the Republicans which seemed to move in lock-step with their congressional leaders, the Democratic leaders and rank and file members seem divided on what course of action to take.

With so many big issues on the table for their consideration, the less than united Democrats-controlled 110th Congress seems unlikely to change the course of US relations with the region in major ways.

In the past the democrats were seen as the champion for issues such as the environment and human rights, putting some strain in their relationship with countries that are seen as impinging on US norms and practices, but even this is likely to be watered down this time around.

Like everywhere else in politics, opposing sides are taking so much of the middle ground that it is difficult to differentiate between Democrats and Republicans and this Congress is the same.

An increase in the number of conservative Democrats during the 2006 elections means that the party will be reluctant to press hard on human rights and the environment when important U.S. business and security interests are at stake.

Many Democratic members support free trade and resist what they see as protectionist measures of some Democratic colleagues against China, Japan, and other Asian trading partners.

After all, this is the party of Bill Clinton



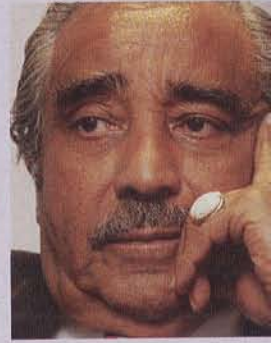
■ RAFIDAH AZIZ



■ PETER MANDELSON



■ NANCY PELOSI



■ CHARLES RANGEL

and the one that gave birth to the North American Free Trade Agreement.

This is good news for Malaysia and other trading nations.

This newly minted position of the Democrats is likely to gain more popularity since a recent poll of the Chicago Council on Global Affairs shows that Americans are fairly comfortable with the economic rise of China, what more the other less aggressive economies.

Given loose Democratic leadership control, individual members in key committee assignments will make more of a difference in the Democratic-led Congress and its approach to Asian issues.

“Because they differ among themselves on key issues, they are likely to have difficulty coming up with united positions in pressing for meaningful change in Bush administration policies regarding Asia.

Sutter further observes that House leader Pelosi and Senate leader Reid are tough on trade and related economic and human rights

issues regarding China.

Representative Sander Levin and some other members of the House Ways and Means Committee and other economic policy committees also favor a tougher U.S. stance on trade issues, especially with China, and regarding trade issues with Japan that affect key U.S. industries, notably autos.

However, they are offset by committee moderates headed by the Ways and Means Committee's leading Democrat Charles Rangel. In the Senate, the leading Democrat on the Finance Committee, Max Baucus, also holds moderate views supported by others on the committee that are not in favour of protectionism.

Unless the US economy suffers a dramatic downturn or a military confrontation develops in the Far East, the prevailing policy will probably continue to apply. However, there is a real concern that the lapse of the Trade Promotion Authority will place pending Asian FTAs in jeopardy.

Sutter also suggests that the tough stance the Democrats may take against China could result in legislation and other actions to pressure the Bush administration to toughen US approach to China but how this will affect their relations with other trading nations is unclear. ■

