Make trade great again

America needs new strategies to address international trade

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The 2016 presidential election revealed deep fissures within the postwar consensus supporting engagement with a liberal economic order. Antitrade rhetoric on the Democratic side has been common fare for decades of presidential primaries, but it was a startling new development to witness vehement hostility to trade agreements and globalization itself as a central pillar in the rapid ascendance of Donald Trump.

Electoral politics focused on opposition to the Trans-Pacific Partnership (TPP) as the most recently signed and most ambitious trade agreement, while the multilateral system received blame for having accepted China as a member so that it could flood world markets with its exports. Worse, the United States is not alone in facing populist backlash against liberalization. From Brexit to the vocal protests against regulatory harmonization and investor rights protections in the Transatlantic Trade and Investment Partnership (TTIP), the public in Europe also shows hostility to further economic integration. With Brazil, China, and India playing the role of passive bystanders at best and spoilers at worst during 15 years of the Doha Round of trade negotiations meant to revamp the World Trade Organization (WTO), none appear ready to seize the mantle of leadership for global economic governance.

The only hope for progress lies in new strategies. As the Trump Administration moves past the rhetoric of the campaign to take actions to support the American economy, it should pursue a three-pronged strategy to bolster domestic gains from international trade.

First, the United States must help those who have been on the losing side from trade. Social safety nets must be strengthened to redistribute trade gains to support education and opportunity. Where bipartisan support exists for earned income credits, this offers immediate means to subsidize workers threatened by imports from low-wage countries. Investment in education and infrastructure form the long-term basis for helping every worker, and the country, maintain competitiveness.

Second, moving forward on regional trade agreements with our allies in the Asia Pacific region and Europe sets the standard for comprehensive liberalization that reduces regulatory barriers while maintaining a level playing field. At present, U.S. workers face unfair competition from countries that don't maintain labor standards and environmental protection. The current agreements don't go far enough to establish fair rules. The Trump Administration's withdrawal from TPP and planned renegotiation of the North American Free Trade Agreement allows an opportunity to create new deals—call it a new TPP, the "Trump Pence Partnership"—that could go beyond anything we have seen before to raise labor and environmental standards of our trading partners while also pushing hard against currency manipulation that undercuts our competitiveness. The new negotiations ought to focus on strict rules of origin to make sure that exports really are sourced from the countries that sign the agreement. A stronger agreement could bring even more than the $42.7 billion in earnings that had been expected to accumulate by year 15 of the Trans-Pacific Partnership. This will signal that the United States remains committed to trade liberalization and that China must join the game or risk falling behind with the laggards.

Third, the United States should encourage Chinese leaders to initiate new multilateral trade talks. Following the failure of the Doha Round with piecemeal deals or U.S. imposition of new proposals will not work for the same reasons the Doha Round failed. The developing countries that now represent two-thirds of the WTO membership must seize leadership to shape trade market access that can allow them to attract investment and export their products.

The economic miracle of postwar growth in countries ranging from Japan and Germany to Korea and Mexico depended on building domestic demand along with exports. But only reciprocity and enforcement of fair trade will persuade the United States and Europe to hold open their markets. The world trading system needs a Beijing Round, with China building consensus among developing countries for the package of reforms they can agree would support development and offer opportunities for business gains from liberalization. China now stands as the largest trading state. Left out of the TPP and facing threats of new tariffs in the United States, China has the capacity and interest to renew multilateralism. If they succeed, all will benefit.

Doha challenges

The Doha Round was initiated in 2001 as the first major trade round since establishment of the WTO in 1995. The talks called for a single undertaking to negotiate a large package agreement on liberalization of trade in goods, services, and investment with a lofty goal to advance a development agenda. But negotiations quickly became mired in deadlock over many of the issues that have long troubled trade negotiators, such as agricultural subsidies and investment rules.

Old habits of consensus decision making did not work for an expanded membership. Foot dragging on agricultural liberalization was nothing new. But the power of developing countries to be major players in world trade negotiations is new. Representing two-thirds of the WTO membership and accounting for half of world output, developing countries were invited inside the room for the informal discussions that set the framework for drafting an agreement. In the past, developing countries received less benefit from trade agreements because they didn't participate in the process of making reciprocal concessions. Under the guise of "special and differential treatment" to favor flexibility for developing countries, they were sidelined. Now seeking a voice, too often developing countries have remained locked in the past practices where they were not expected to contribute any reforms to the trade negotiation agenda. For example, in the Doha Round, India sought to exclude its auto and agricultural sectors from liberalization while China insisted it should not have to go beyond the concessions of its WTO accession package.

The rhetoric of fairness undercut the traditional reliance on reciprocity that drove liberalization as a series of quid pro quo deals to exchange concessions for market access. At the 2003 Cancún ministerial meeting, consensus rules led a handful of developing countries to resist inclusion of investment, government procurement, and competition policies that had been priority issues for developed countries. The collapse of this meeting foreshadowed troubles ahead for a trade round that no longer held out the prospect of major gains for business in developed countries while still seeking to move forward a diminished agenda of liberalization.

Regional trade deals soon absorbed the attention of trade negotiators frustrated by the lack of progress in multilateral talks. Part of the problem has been that many states appear to be more interested in negotiating preferential trade agreements outside of the WTO than taking leadership in the Doha Round. Preferential agreements exclude sensitive issues such as agricultural subsidies and are often concluded with smaller states so they have marginal economic value, while their complicated rules of origin introduce complexity and discrimination that limits world trade. Yet negotiating these agreements absorbs considerable attention of trade officials and leaders.

The debate in the United States over ratification of the trade agreement with Colombia is a case in point. The Bush Administration heavily campaigned for the measure and more than 50 members of Congress visited Colombia as they considered whether to support an agreement with a country that represents barely one percent of U.S. trade volume. The agreement signed in 2006 was finally ratified by Congress in 2011 after agonizing debates over human rights in the country. Over the period from 2001 to 2015, while the Doha Round languished, the United States negotiated new free trade agreements with Australia, Bahrain, Chile, Colombia, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Jordan, Korea, Morocco, Nicaragua, Oman, Panama, Peru, and Singapore. The repeated need to force through close votes in Congress to approve these agreements represents a costly use of political capital and trade negotiation resources. A similar dynamic in other countries contributed to the reality that the WTO records more than 400 regional trade agreements currently in force.

Meanwhile, the Doha Round remained locked in a stalemate. After repeated failures to reach agreement at annual ministerial meetings, in 2015 U.S. Trade Representative (USTR) Michael Froman published a controversial op-ed calling for the WTO to end the Doha Round and move on to a new agenda. Members agreed to end agriculture export subsidies and concluded a Trade Facilitation Agreement that promises to bring major gains through technical assistance and regulatory changes to move goods more quickly through ports and customs. From the U.S. perspective, this was the end of the Doha Round. But several developing countries refuse to abandon the talks, which leaves the WTO in the awkward position of having an inconclusive end to the round and no clear direction going forward.

Learning from past failures

Previous crises of the international trading system offer several lessons. The breakdown of trade following the Great Depression and failed London Economic Conference of 1933 saw governments raise protection barriers and deepen reliance on regional and colonial ties as sources of markets. In the wake of WWII, leaders tried to establish a comprehensive trade institution but could not agree, so instead a small subgroup of 23 like-minded states formed the General Agreement on Tariffs and Trade (GATT) as a provisional measure to establish common rules for nondiscrimination and reciprocity in tariff liberalization. Expanding membership and the changing nature of trade barriers revealed the GATT to be inadequate.

The economic downturn of the 1970s amidst an energy crisis led states in the Tokyo Round to adopt a plurilateral approach within GATT that expanded new agreements on subsidies and other nontariff measures with a la carte adoption by those who favored the deals. But poor enforcement and growing dissatisfaction with the inability to make progress on liberalization in tough areas such as agriculture led states to push for more centralization. Through the Uruguay Round negotiations, states formed the WTO as a stronger organization under the umbrella of a single undertaking whereby all members accepted binding commitments and enforcement in a more legalized dispute settlement process. Yet as the approach that worked to establish the WTO proved inadequate in the Doha Round, some came to consider revisiting the regionalism and plurilateral options of earlier periods.

Retreat into regional blocs cannot supplant the role of multilateral trade rules. Multinational firms and consumer preferences have adjusted to global markets and supply chains. The complex rules of origin and exceptions that riddle every preferential agreement contribute to red tape and inefficient diversion of trade from optimal sourcing choices. Even the TPP is an odd collection of states that slices through the middle of the Association of Southeast Asian Nations (ASEAN) free trade agreement and threatens the deeply embedded regional production networks of the region. Although in some areas the bilateral and regional agreements serve as a testing ground for new rules templates that deepen liberalization, they also leave out critical areas such as agricultural subsidies and rules to restrain trade remedies. Moreover, the enforcement measures that win support from the fiercest critics of free trade are more robust at the multilateral level, where a large collective membership enhances reputation and precedent as greater leverage for compliance.

Plurilateral deals appear attractive as states go forward in the areas of agreement with those willing to make commitments. The Information Technology Agreement shows the promise of sectoral liberalization with tariff elimination on products valued at more than $1.3 trillion per year. Yet by the nature of selective agreements, states engage in cherry-picking where liberalization was already accepted as serving the best interest of all states. Hard choices for liberalization in agriculture are unlikely to come through sectoral talks with clear-cut winners and losers, and broad rules related to managing dumping practices, competition policies, and technical barriers to trade require a more encompassing approach. If major export interests see their needs met in sectoral agreements, they will not show up to support the harder negotiations on agriculture and rules that remain necessary for global benefit from trade.

Instead, we need a new approach to multilateralism in the WTO. Reforms must occur at the level of leadership and procedures. The mantle of initiating negotiations as the host of a new trade round should be given to China. The Beijing Round will clearly set expectations for China to move beyond minimal concessions and offer new proposals. China has become a leading user of agricultural subsidies and is a frequent target of complaints charging it with violations of WTO rules. At the same time, its exports face protection barriers and its investors are increasingly out taking advantage of global markets and exposed to the same risks that concern American and European investors.

In 2001 WTO accession helped anchor economic reforms within China. In 2017 China must work to ensure that the organization it strived to join remains a guarantor of market access and nondiscrimination. As host of the G20 meeting of leaders in 2016, the Chinese government added a trade and investment working group, which shows the strength of China's interest in promoting cooperation in this area. In China's search for stature and leadership of international governance institutions, the prestige of a Beijing Round in the WTO could spur new effort from China to support the organization. Far from ceding the United States' leadership role, in calling for a Beijing Round, the United States would let China share the burden of making first offers and cajoling compromise from others.

At the level of decision-making procedures, consensus rules and decentralized negotiations cannot work for a body that encompasses 164 countries ranging from Afghanistan as the newest member to America as the founding hegemon. While sovereignty concerns mean that any revision to the fundamental treaty provisions in the WTO agreement will require consensus, a much wider range of decisions related to the tariff cut formula, agricultural subsidy reduction, or definition of conditions to allow remedy use should allow two-thirds majority voting. Delegation to the directorate-general of responsibility to negotiate a draft agreement among members would speed up the process of making trade-offs across issue areas.

The U.S. Congress overcame its own failures at legislating tariffs when the Reciprocal Trade Agreements Act of 1934 began the process of delegating negotiation authority to the executive branch. Congress votes to approve trade promotion authority that allows the executive to negotiate the details of the agreement with trade partners and bring back an agreement for an up-or-down vote by Congress. Similarly, WTO members could vote to authorize the director-general to negotiate on an agenda framework they approve, and then vote on the final draft. Package deals only work if someone has the authority to bring together a compelling package with something for everyone, followed by a final decision on the whole package.

In the United States, personnel decisions will affect the capacity to move forward on this agenda. The USTR oversees the broad trade agenda and should be an individual with the authority and experience to command respect abroad and with Congress. Most importantly, there is need for continuity. As the Doha Round hung at a turning point, President Bush appointed Robert Portman to serve as USTR in 2005 only to shift him out of the office for another position a year later. Appointing good people and keeping them at the helm for the full term of negotiations assures more control over the agenda of complex trade negotiations. When serving only one to three years, USTR officials naturally lean toward the regional and plurilateral agreements that can be concluded within such a short time span as a legacy accomplishment. A four-year term should be the baseline expectation to allow a leader to formulate comprehensive strategy across multilateral and regional negotiations.

Trade should be a top priority as a source of growth and opportunity for the economy where the United States stands to gain in areas from agricultural exports to software and services. Only once in eight years did President Bush refer to the U.S. commitment to the Doha Round in a presidential State of the Union speech, with an endorsement in 2008 that the administration was working for a successful Doha conclusion. Similarly, President Obama spoke of the need to continue to shape the Doha trade agreement in 2010 as the only reference made in a State of the Union speech. Sending trade negotiators to ministerial meetings without making it a priority at home suggests the limited attention given to the issue and undercuts negotiating authority.

President Trump has repeatedly stated a preference for bilateral negotiations, and this can generate new standards and create openings that may be hard to achieve first at the multilateral level. But the bilateral hub-and-spokes approach to trade has two major disadvantages: It leaves the United States alone to enforce each agreement through unilateral action, and it creates a wide set of varying rules that are difficult for business to comply with. Enforcing dozens of bilateral agreements is a heavy burden for the U.S. government and the rules are inefficient for global firms. So it is essential to integrate the bilateral deals into a new WTO agreement.

The United States attempted bilateral negotiations and enforcement in the 1980s, but even after coercing currency realignment by Japan in 1985 and arranging for quotas to guarantee U.S. export shares and limit Japanese imports, the trade balance remained a problem. Repeated threats of sanctions against our trade partners built resentment on their part with little evidence of direct improvements in U.S. export market access resulting from the tough enforcement. This led the Reagan Administration trade negotiators to support efforts to develop a stronger multilateral system that would become the WTO. The enforcement record of the WTO shows some successes, and while not always solving disputes, it has been shown to bring better results than simply negotiating over trade barriers. The optimal strategy would mix bilateral deals with a long-term strategy to bring them into a multilateral framework.

The domestic process must reflect the integral connection between domestic income support and investment with the trade agenda. The current logroll for passage of trade promotion assistance together with trade adjustment assistance falls short of a comprehensive strategy that views trade and aid as two sides of the same policy. Only with support for low-income workers threatened by trade can the country enter new liberalization agreements. The scope of income support and retraining investment should be tailored to match the expected dislocation and gains from liberalization. But targeting specific workers harmed by trade emphasizes the negative side of trade and belies the broad positive impact of trade across sectors. A more positive approach would sell the gains from trade as an opportunity to advance redistribution and retrain our workforce to take advantage of the new opportunities opened by trade. Increasing support to all lower-income workers forms the basis for a new social contract that favors advanced production integrated in the world economy.

In sum, three steps will make trade help and not hurt American growth and opportunity. Strengthening the competitiveness of the American worker must come first. This is fundamentally about educating workers and providing an income guarantee to support their transition between jobs as they adjust to market changes. But even the best workers need fair rules. The second priority must be renegotiating the rules to open markets to U.S. exports and ensure they can compete on equal terms with others. New bilateral and regional trade agreements can lay the groundwork for more fair trade, but this is not enough. The third recommendation calls for multilateralizing the gains from regional and bilateral negotiations. The United States should not be the only country working to support the trade system and can strengthen the multilateral system that it helped to establish with tougher rules and new enforcement priority. China and other states need to do their part to support the global economy, and in doing so they will help the United States.

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