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How to Make America's Next Trade Policy

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For nearly 80 years, the United States was the chief architect and foremost defender of the global rules-based, liberalized trading system. The twin aims of this bipartisan policy were to promote U.S. economic and strategic interests—and on both counts, the nation's efforts have been successful. Increasing economic interdependence and globalization more broadly have fueled economic growth and innovation, raised a billion people out of poverty, and discouraged the kind of bloodshed that was all too common before the advent of the global trading system. Despite these successes, however, the system is facing its most serious and credible threat since the early 1930s, when beggar-thy-neighbor protectionism spread across the globe and fueled both the Great Depression and World War II.

Under the false promises of economic nationalism, President Donald Trump has abdicated the commercial leadership supported by his predecessors stretching all the way back to Herbert Hoover. The president has withdrawn the United States from the Trans-Pacific Partnership (TPP), a promising trade agreement with Pacific Rim countries; threatened to withdraw from valuable institutions like the World Trade Organization (WTO) while crippling its adjudicatory function; recklessly imposed tariffs on longstanding allies under the dubious guise of national security; and spurned those allies to wage an ad hoc and aggressive unilateral trade war against China.

These ill-advised policies have hurt American families and businesses, damaged U.S. competitiveness in an increasingly globalized 21st century economy, triggered predictable retaliation from trading partners, sewn uncertainty, and alienated the very allies America needs to tackle legitimate challenges facing the global economic system. By erecting new barriers to trade and investment while working outside the confines of the rules-based system, the United States is rapidly squandering decades of hard work and foresight at a time when much of the rest of the world—particularly the economies home to Americans' biggest competitors—pushes forward with more liberalization.

As 2020 presidential candidates campaign across the country, we are concerned that they are failing to grasp the severity of the situation they would inherit upon entering the White House. It is imperative that the next president work diligently to re-establish the United States as the global leader and defender of rules-based trade liberalization. A candidate wishing to adopt a bold, forward-thinking trade policy agenda for the 21st century should promise to:

Withdraw the National Security Tariffs and Threats of National Security Tariffs

Previous presidents, who rightly understood that false claims of national security undermine real ones, used their authority to restrict imports in the name of national security sparingly and judiciously. Today, that is not the case. After dubious Department of Commerce studies determined that imported steel and aluminum jeopardize the national security of the United States, President Trump levied steep duties on these metals in early 2018. Meanwhile, the Defense Department estimates that "U.S. military requirements for steel and aluminum each only represent about three percent of U.S production." Now the White House is considering whether to use national security tariffs to restrict imported automobiles and automotive parts.

Imported steel, aluminum and automobiles do not jeopardize national security. Instead, President Trump is, by his own admission, using the threat of national security tariffs to extract from our trading partners more favorable treatment of American exports. This belies the intent of the statute and ignores the fact that the United States has negotiated a number of successful trade agreements without resorting to reckless, self-defeating national security tariffs.

The president's national security protectionism has triggered predictable retaliation from trading partners, ensnaring unrelated industries like agriculture in the back-and-forth and raising the cost for U.S. firms reliant on imported steel and aluminum. Economists Dr. Kadee Russ and Lydia Cox recently concluded that there are "75,000 fewer jobs in manufacturing attributable to the March 2018 tariffs on steel and aluminum, not counting additional losses among U.S. exporters facing tariffs other countries levied in retaliation." Meanwhile, companies like Harley Davidson face a one-two punch: higher costs for inputs due to the steel tariffs and retaliatory tariffs from the European Union. This led Harley, an iconic American brand, to shift some production overseas.

At the same time, the tariffs have failed to revitalize the industries they were ostensibly designed to protect. As *The New York Times* reported, "There are fewer aluminum production jobs in the United States than a year ago, while steel mills have added only a few thousand jobs." According to economists at the Peterson Institute for International Economics, each steel job created due to the tariffs is costing consumers about $650,000. Meanwhile, steel and aluminum producers, most notably U.S. Steel, have shuttered factories in the face of high input prices and sagging demand and have seen their stock prices tank.

On top of the direct costs and failed objectives, the national security tariffs and threatened tariffs have strained commercial relations with longstanding allies. Though the president reluctantly removed the steel and aluminum tariffs on imports from Mexico and Canada after it became clear they were a hurdle to ratifying his NAFTA replacement, the remaining tariffs are still in place for virtually every other trading partner, including Japan and the European Union.

To spare families and businesses from needless pain and rebuild trust among valued allies, the next president should withdraw the steel and aluminum tariffs, pledge not to impose national security tariffs on automobiles and automotive parts, and work with Congress to enact meaningful restrictions on unilateral tariff authorities.

Defend and Reform the World Trade Organization

With 164 member nations covering 98 percent of global gross domestic product, the WTO provides a crucial bulwark for the rules-based trading system. The institution serves three basic functions: It provides baseline multilateral trade rules that ensure open, non-discriminatory markets; a forum to negotiate new rules; and a process for peacefully resolving disputes through consultation and, if necessary, binding litigation.

Through numerous multilateral negotiating rounds and the resolution of hundreds of disputes, the WTO and its predecessor, the General Agreement on Tariffs and Trade (GATT), have been remarkably successful. When the United States and its allies began negotiating the GATT shortly after World War II, the average tariff of participating countries was 22 percent. In 2018, the world's applied tariff was just 9 percent. Though declining slightly this year due to a number of factors, including trade tensions between Washington and Beijing, trade volumes have grown by over 4 percent annually (on average) since the WTO was first established in 1995. Likewise, the United States has effectively used the WTO's dispute settlement system to hold countries accountable for violating their binding commitments. The president's own Council of Economic Advisers acknowledged that the United States wins more than 85 percent of the cases it brings to the organization. This reality stands in stark contrast to the president's misguided rhetoric about the WTO.

With populism on the rise, the WTO is facing a multi-front crisis. China's unique brand of state-driven mercantilism poses the biggest challenge to the future of the WTO. However, the more immediate challenges are driven by the Trump administration's own antipathy for the Geneva-based organization. The president has repeatedly threatened to withdraw the United States from the WTO. Though he lacks the express legal authority to do so, his threats alone undermine global trade.

A more subtle threat to the WTO is the Trump administration's war of attrition on its Appellate Body, the highest court of international trade. Citing certain disagreements with the dispute settlement process generally, the Trump administration is currently blocking the appointment of new Appellate Body jurists. As a result, the Appellate Body now has just one member—two short of the quorum necessary to hear appeals of panel decisions—instead of the usual seven. Unless the Trump administration stops blocking new appointments, the Appellate Body cannot adjudicate new disputes. Like the threat of withdrawal, crippling the adjudicatory function of the WTO will hamstring the United States' ability to hold foreign countries accountable for discriminatory and protectionist trade policies.

Admittedly, a major problem confronting the WTO is the inability of its 164 member countries to move forward with negotiations to update and expand the rules for global trade. Since the collapse of the Doha Development Round, multilateral talks have ground to a halt. Though there were numerous causes of the Doha Round failure, much of the blame lies with the United States—in particular, U.S. (and E.U.) unwillingness to curb agriculture subsidies and other forms of agricultural protectionism or to further discipline the use of "fair trade" mechanisms like antidumping measures. This intransigence came with a cost: While American competitiveness in services and data-enabled exports has deepened, common rules governing these forms of trade remain weak or entirely absent from WTO agreements.

To reaffirm the United States' commitment to the WTO while promoting reforms that enable it to meet the challenges of the 21st century global economy, the next president should make three specific promises.

First, if the United States expects other nations to abide by their trade commitments, it must lead by example. Thus, the next president should stop blocking the appointment of new members of the WTO's Appellate Body. Instead, he or she should engage in robust negotiations to address legitimate U.S. concerns about the dispute settlement process in Geneva.

Moreover, the next administration should work to expand the WTO's Dispute Settlement Body so that it can resolve disputes more quickly, enhancing its ability to deter unfair practices without lengthy delays. A fully functioning dispute settlement mechanism allows the United States to hold countries accountable for protectionist trade policies that burden American firms.

To accomplish this goal, the next administration must work with Congress to provide the WTO with more funding. The organization currently faces a massive resource crunch. In 2018, the United States provided the WTO with slightly more than $22 million—about 11 percent of the organization's budget. As the world's largest service exporter and the second largest goods exporter, the United States can and should recognize the importance of the institution and contribute more.

Second, the next president should reaffirm that the United States will attempt to resolve all disputes over WTO rules within the system rather than undermining the system by working outside its confines. The United States' commitment to resolving disputes through the WTO was instrumental in forging a broader compromise that transformed the flawed GATT into the WTO, with its binding dispute settlement system, in the mid-1990s. Whoever is elected in 2020 should continue this legacy.

Likewise, given the United States' record as a complainant, the next administration needs to bring more disputes to the WTO. At the same time, the United States should seek compliance where it has won a dispute but the offending party has not withdrawn the offending measures. In 2012, for example, the United States prevailed in a case involving China's discriminatory payment system policies. Despite winning the case, China was slow to take adequate steps to remove the offending policies. The United States should have pursued compliance proceedings in this and other instances to ensure China responds in a manner contemplated by the decisions.

Third, with multilateral negotiations stalled since the collapse of the Doha Development Round, the next administration should actively negotiate with some, but perhaps not all, WTO members to write new disciplines that will update and expand the rules for international trade. Known as "plurilateral" negotiations, these "coalitions of the like-minded" offer the best option for revitalizing the WTO as an indispensable forum for liberalization. Three areas are ripe for these types of negotiations: trade in environmental goods, to mitigate the effects of climate change; digital trade, the new frontier of commerce in the 21st century; and trade in services, in which the United States has an enormous comparative advantage. Though trickier to negotiate, new rules on industrial subsidies would also be a worthwhile endeavor. The goal of these negotiations should be to write new rules that eventually apply to every WTO member.

Should momentum grow for multilateral talks, the United States should be ready to offer farm subsidy cuts and new antidumping disciplines in exchange for real commitments on industrial market access, services liberalization, subsidies, and 21st century issues. The importance of such commitments is reflected in the structure of the U.S. economy, which excels in technology-enabled services, high-value industrial products, and frontier innovation.

Pursue Regional Trade Liberalization

Not only should the United States pursue new rules and broad liberalization at the WTO, it should seek partners to begin negotiating free trade agreements. Such agreements would expand market access for the benefit of both American consumers and producers, write new rules that could eventually form the basis of a new era of multilateralism, and engender goodwill among trading partners, making it easier to address collective action problems facing the world.

While the rest of the world pursues more trade liberalization—the European Union, for example, recently concluded an agreement with MERCOSUR (a South American trading bloc comprised of Argentina, Brazil, Paraguay and Uruguay)—the United States is standing still. After the United States withdrew from TPP, its remaining members pushed forward to implement the agreement, offering preferential access to each other's domestic market. Meanwhile, since 2016 the U.S. has been able to make only negligible modifications to the U.S.-Korea Free Trade Agreement, a minor deal covering only a few sectors with Japan, and renegotiate NAFTA, which passed Congress in early 2020.

Returning to the TPP is the most expeditious way to ensure that U.S. exporters face a level playing field with their competitors in pivotal Asian-Pacific markets. Lost market access is an especially acute problem for American farmers and ranchers attempting to reach notoriously closed Asian agriculture markets. Though the U.S. recently announced a limited deal with Japan that would reduce agriculture tariffs, cut a small number of industrial tariffs, and enshrine digital trade rules, joining the TPP provides greater market access and more comprehensive commercial, labor, and environmental protections than currently on offer.

Re-engaging with our Asian allies through the TPP provides an important strategic asset to the next president. Through this partnership, the United States provides countries in China's orbit with an alternative market of similar size and a framework for dispute resolution based on rule of law rather than economic power. The U.S. will gain a vital tool of soft influence in the region that challenges Beijing and other Asia-Pacific countries to raise their commercial standards.The next president should quickly rejoin the TPP and encourage other regional countries like Thailand to accede to the agreement.

Europe, too, presents an opportunity for renewed trade cooperation. Between 2013 and 2016, the United States and the European Union were negotiating the Transatlantic Trade and Investment Partnership (TTIP), a modern, comprehensive commercial agreement. Those talks stalled after President Trump's election and the surprising decision by the United Kingdom to leave the European Union. Yet despite the absence of a free trade agreement, the European Union remains the United States' largest two-way (exports plus imports) trading partner—total trade between these two powerful economies nearly reached $1.3 trillion in 2018.

Cutting trade and investment barriers on both sides of the Atlantic could supercharge an already powerful economic arrangement. Like TPP, TTIP would enhance the United States' geostrategic positioning by strengthening important security and diplomatic ties. After the last several years of the Trump administration questioning the value of alliances like the North Atlantic Treaty Organization, undercutting the U.S/EU commercial relationship by proclaiming certain European products to be national security threats, and acting outside the confines of the WTO, a completed TTIP would reaffirm the United States' commitment to the transatlantic relationship. Likewise, it would improve the West's position vis-a-vis an increasingly hostile Russia and provide the United States with another trading bloc committed to high quality commercial rules that could be leveraged to help discipline China's trade and investment transgressions.

Renewed TTIP negotiations will not be easy and the next president must be willing to make some tough concessions in order to move forward. Several high-profile areas of disagreement –

including those involving issues of agriculture, international tax, digital trade, and data flows – await a re-engaged president. Tough decisions will need to be made. Nevertheless, the economic and strategic benefits are too great to ignore.

Familiar and new trade partners offer potentially valuable economic and strategic alliances. Free trade agreements with a post-Brexit United Kingdom and Switzerland could boost trade beyond existing relationships while providing U.S. trade negotiators additional leverage in TTIP talks. Meanwhile, opportunities for fruitful deals exist with MERCOSUR, India, and the 54 nations now part of the African Continental Free Trade Agreement, the first phase of which went into effect last year. The next president can and should aggressively work to push the envelope on regional and bilateral liberalization.

In Concert with Allies, Effectively Confront Beijing's Trade Practices

The U.S.-China relationship is the most important geostrategic relationship in the 21st century—and increasingly so. As China's wealth and influence continue to rise, frictions between Washington and Beijing are inevitable. From disputes over human rights and national security to economic cooperation and confronting climate change, how these two superpowers manage their relationship over the coming decades will largely define the prospects for global peace and prosperity. Developing a thoughtful, forward-looking commercial strategy is thus of paramount concern to the next president.

Despite this imperative, the current administration's ad hoc approach to China is woefully inadequate for the long-term challenges ahead. The United States has legitimate complaints about Chinese trade policy practices, including intellectual property abuse, forced technology transfer, cyber intrusions into commercial networks, and theft of trade secrets, all of which were documented in the U.S. Trade Representative's 2018 report. Relying on the report, the president has waged a haphazard trade war against China. Indeed, over the last year and a half, the world's two largest economies have engaged in a tit-for-tat escalation of tariffs against a backdrop of increasing tensions and uncertainty.

The next president will need to confront some hard truths about the U.S.-China commercial relationship. To begin, he or she will have to acknowledge there is no silver bullet with respect to resolving the multi-dimensional problems that exist in our trade and investment relations with Beijing. The administration must deploy a variety of tools of economic statecraft. He or she will need a flexible and transparent strategy for managing this increasingly complex relationship.

Constant engagement will be far more effective than an outdated Cold War paradigm that erects an "economic iron curtain" between the world's two largest economies. Such engagement must include close coordination with U.S. allies. Confrontational, erratic unilateralism may win plaudits from Beltway hawks, but it confuses and alienates our friends and marginalizes reform-minded voices in Beijing, making progress that much more difficult. Transforming China's state-centric mercantilist economy will take time and persistence, not overheated bluster and unilateral tariffs.

To pivot away from self-defeating tactics toward smarter tools, the next president should remove all the recently enacted tariffs on imports from China. In the unlikely event that the recently announced "phase one" deal with Beijing comes to fruition, the average tariff on imports from China will remain above 19 percent, which is six times higher than when the trade war began.

And, given the recent adversity in China due to the COVID-19 virus, achieving the (already) excessively optimistic Chinese import goals of the agreement may prove impossible. U.S. tariff removal should be paired with China's removal of its retaliatory tariffs against American exports. The tariffs are causing an inordinate amount of pain for America and its allies. Business investment continues to fall as the trade war drags on, imperiling future productivity growth. Moreover, as time passes, it becomes increasingly clear that the Trump tariffs have failed to achieve their objective of forcing substantial changes to the Chinese economic model. The next president needs effective tools that promote Chinese compliance with global commercial norms.

As an alternative to self-defeating unilateral tariffs, the United States should lead a large coalition of like-minded allies to bring important cases against Beijing at the WTO. Despite the current administration's claims, the United States can successfully challenge Beijing's commercial practices at the WTO. The payment systems case notwithstanding, China has a decent record of complying with adverse decisions at the WTO. For instance, in 2010, after Beijing restricted sales of rare earth minerals used in certain technology products to Japan in a high-profile confrontation, the United States, the European Union, and others joined Tokyo to challenge the measures. After losing the case at the WTO in 2014, Beijing eventually withdrew the measures. This is just one example of China complying with adverse WTO decisions and provides a roadmap for future American presidents to confront Beijing in Geneva.

In addition to filing cases at the WTO, the next president should better deploy the full range of tools of economic statecraft. The United States recently enhanced its ability to monitor and restrict potentially malicious foreign investment in domestic firms through the Committee on Foreign Investment in the United States (CFIUS). Though CFIUS could be used as a protectionist cudgel, carefully crafted restrictions implemented in a consistent, transparent manner ensure that American trade secrets and sensitive technologies are not transmitted to the Chinese government.

Likewise, the next president should consider imposing narrow sanctions on specific actors—for example, state-owned enterprises controlled by the Chinese Communist Party. Likewise, adopting carefully crafted export restrictions on certain cutting-edge technologies with national security applications also makes sense. Though these measures should also be reviewed for their consistency with multilateral trade rules, they are subject to formal rules that make them a superior alternative to the ad hoc, opaque tariff regime now in place.

Though politically challenging, the United States and China could negotiate an actual bilateral trade agreement that addresses a number of structural concerns raised by the USTR. Before Barack Obama left office, his administration was negotiating a bilateral investment treaty with Beijing with binding and enforceable commitments. The next president should build on those negotiations to bring the Chinese back to the table.

Leveraging allies and institutions like the WTO, deploying carefully targeted tools of economic statecraft, and enhancing U.S. economic integration to raise commercial standards in the Asia-Pacific Region will not completely transform China's economy, but it will provide more benefits and do less harm to the United States than sclerotic protectionism.

Yet even the most carefully deployed tools of economic statecraft are no match for out-competing China in the 21st century. That effort begins at home. In order to meet the challenges of the 21st century, policymakers should expand high-skilled immigration, eliminate tariffs on industrial inputs, expand science- and technology-based education, provide more subsidies for research and development, and responsibly address climate change and the national debt while working to reform local licensing and zoning regulations that dampen both business and labor dynamism. If China truly is an existential competitor or even a threat, it is time that U.S. policymakers started acting like it.

The Challenge

Trade policy has not been a top priority for presidential candidates in the recent past. Yet, since the early 1930s, American policymakers have overcome difficult politics to pursue carefully crafted trade policies that propelled U.S. commercial leadership. Yet given the serious harm President Trump has done to our commercial relations since assuming office, the next president will not have the same luxury.

During the 2020 campaign and thereafter, trade policy will be front and center as the U.S. confronts a rapidly changing technological and geopolitical environment. To undo the damage that the current administration's unilateral and ineffective actions have wrought, the next president must pursue policies and alliances that affirm the United States as the global leader of the rules-based trading system in the 21st century.

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