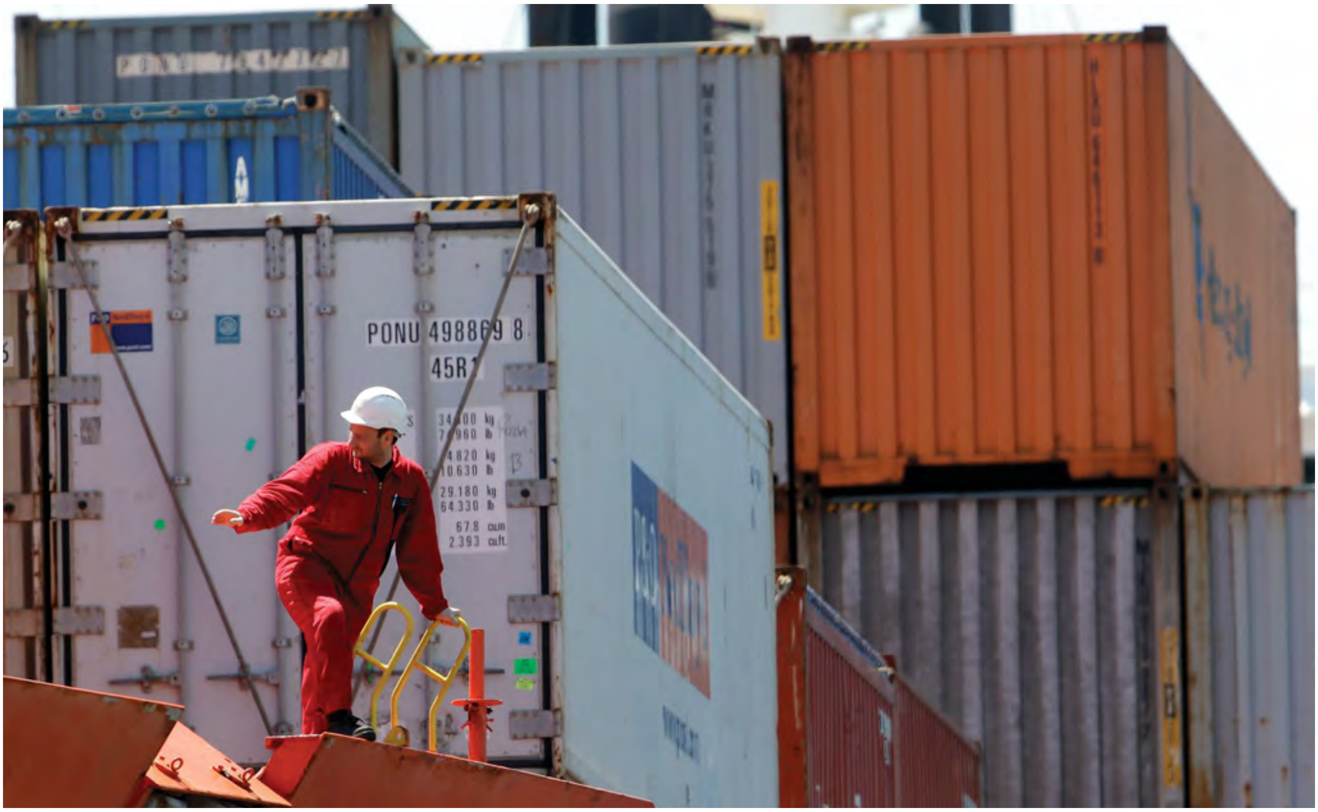
U.S. trade policy

by Michael O. Moore and Robert Maxim



A sailor on the Bahia Castillo, a Hamburg-based refrigerated cargo ship carrying fresh Chilean fruit and other goods signals as it docks at Packer Avenue Marine Terminal, in Philadelphia, PA, in May 2013. (AP PHOTO/MATT ROURKE)

In the wake of World War II, the U.S. played the leading role in establishing a consensus among the world's major democratic powers that greater international cooperation would help prevent future war. A centerpiece of this effort was trade liberalization. Over the next six decades, presidents from both parties supported a commitment to relaxing restrictions on the international flow of goods, services and investment.

The support for trade liberalization has reflected broad agreement among trade policy analysts that economic globalization has been beneficial to the both the U.S. and the world. A wide consensus among economists has held that trade liberalization leads to greater economic prosperity. Foreign policy specialists have believed that greater economic integration reduces the chances for conflict.

However, many in the U.S. public have a starkly different view towards trade policy. U.S. citizens have become increasingly anxious about the future of the American economy. Many fear that a rapidly globalizing economy has diminished the U.S.' position as the world's leading economic power. These skeptics fear that increased integration has hurt average citizens, especially by undercutting millions of U.S. manufacturing jobs and the middle-class existence long associated with them.

This general unease is evident in public surveys about

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trade policies. For example, many U.S. citizens and advocacy groups continue to voice strong opposition to the North American Free Trade Agreement (NAFTA), a trade pact among the U.S., Canada and Mexico, 20 years after its implementation. Additionally, a broad swath of Americans express growing nervousness about the rise of China as an international competitor. These worries have been exacerbated by the economic convulsions surrounding the "Great Recession" of 2008–09 and its aftermath.

A public opinion poll compiled in November 2010 by NBC and The Wall Street Journal reflects this skepticism: only 23% of the 1,000 adults polled agreed that "free trade" with foreign countries has helped the U.S., while 47% believed that it has hurt the U.S. (NBC/Wall Street Journal). But many citizens do not view trade with every nation identically. A Pew Research Center poll of 1,255 adults, also conducted in November 2010, found that significant majorities supported increased trade with Canada (76%) and the European Union (58%), while only 45% supported increased trade with China. This last result is especially notable; many U.S. citizens fear increased trade with China will result in job losses arising out of "unfair" Chinese practices, including low wages, currency policies, and lax domestic regulations. Moreover, the results suggest that recent trade skepticism is focused especially on competition from lower-income countries rather than richer countries.

The ambivalent attitude about trade evident in the Pew Poll also cuts across demographic lines. Only a minority of Republicans (28%) and Democrats (40%) agreed that that "free trade agreements like NAFTA and policies of the WTO were good for the U.S." Only in families whose incomes were over $100,000 did a larger proportion believe that free trade agreements benefited their own personal finances.

Politicians in both major U.S. political parties regularly offer statements that acknowledge this anxiety, especially during electoral campaigns. Democratic candidate (and later President) Barack Obama promised repeatedly in 2007 and 2008 that upon his election he would "renegotiate" NAFTA since the agreement "on balance" had not been good for America. Mitt Romney, the 2012 Republican candidate for president, argued repeatedly during his campaign that trade with China was "cheating" on its trade commitments and unfairly harming U.S. workers and companies.

However, these sentiments did not first arise with recent economic tumult. A Republican former governor and later president encapsulated such views:

> *This country will not and can not prosper under any system that does not recognize the difference of conditions [abroad] and in America. Open competition between high-paid American labor and poorly paid [foreign] labor will either drive out of existence American industry or lower American wages.*

The speaker? William McKinley, elected president of the U.S. in 1896, who was discussing competition with European workers. While President McKinley may have been worried about the onslaught of "low wage" European workers, today the focus is on China and other developing countries. Nonetheless, the basic concerns are remarkably consistent.

In stark contrast, many in the academic and policy communities have a positive view of international economic integration. They will argue that globalization has led to increased choice and lower prices for American consumers and businesses, even if some face significant dislocation and lower incomes from increased foreign competition. They also claim that integration offers important opportunities for economic growth and high-wage jobs in export-oriented sectors. Secondly, trade policy experts argue that globalization is only partly to blame for stagnant wages and job prospects for some Americans. Massive technological changes, which have occurred simultaneously with increased globalization, have been even more important than international competition in reducing the demand for low-skilled workers and contributing to stagnant middle class wages. Advocates for open markets frequently contend that the U.S. government can do little to thwart the intense pressures from continued globalization, since much of these changes are a result of policy decisions in other countries, rather than recent trade liberalization in the U.S. Moreover, these analysts maintain that global economic integration is a reality, whatever one might think of its costs or benefits.

In short, the divergence between the opinion of "elites" and the broader public on the effects of economic globalization are striking. Candidates from both parties will make statements that nod in the direction of skeptics' worries about trade, but policies have remained notably consistent across the decades. At the same time, public dissatisfaction on U.S. trade policy remains high. This dichotomy reflects a common aspect of policy discussion in the U.S. today: advocates of particular policies often ignore some of the truths in the positions of those that disagree. As will be made clear below, free trade is neither a panacea that brings prosperity and happiness to all nor the source of only disruption and pain to average Americans.

The U.S. open economy

Despite long-standing political pressures from globalization's skeptics, the U.S. economy remains remarkably open to foreign products. Average U.S. tariffs (taxes that importers must pay before bringing goods into the American economy) were around 60% in 1930, but fell to 4% in 1989. By 2011, the average tax on foreign goods was only 1.6%. These changes reflect a critical fact about U.S. trade policy: the vast majority of the United States' increase in openness to foreign goods was largely completed over 35 years ago.

Commercial realities also continue to integrate the U.S. into world markets. U.S. households stretch budgets by purchasing goods made abroad. Cheaper clothing that arrives from garment factories across the world allows lower income Americans to buy needed items such as shirts for work, shoes for children, and winter coats. Inexpensive imported electronic goods such as mobile phones and more advanced "smartphones" not only allow family members to stay in touch with relatives and summon emergency help in remote locations, but have also spawned countless new business ventures that take advantage of an interconnected world. But it is not just final consumers heading to the shopping mall who benefit from high quality and inexpensive foreign goods. U.S. manufacturing firms increasingly rely on imported inputs to compete in international markets. For example, U.S. automobile firms, which struggled with the industry's near complete collapse in 2008 and 2009, depend on imported auto parts to stay competitive with foreign automakers. Imported steel, a critical input in manufacturing processes, finds its way into construction projects that create jobs for carpenters, welders and plumbers or into automobiles assembled in the U.S. Exotic metals such as titanium, sourced from abroad, help Boeing build the most advanced civilian aircraft in the world. Low-cost computers, assembled in other countries, have revolutionized workplaces and homes across the U.S.

Despite these clear benefits, global competition causes enormous disruptions to individual workers, companies and communities. During its heyday in the 1960s, the U.S. automobile industry, dominated by the Big Three (GM, Ford and Chrysler), directly employed tens of thousands of well-compensated workers and supported hundreds of thousands of other jobs in related industries. From the 1980s forward, many of these jobs were lost, with the rise of intense new competition from Japanese and European automakers. Similar international pressures occurred in other manufacturing industries such as steel, footwear, textile and apparel.

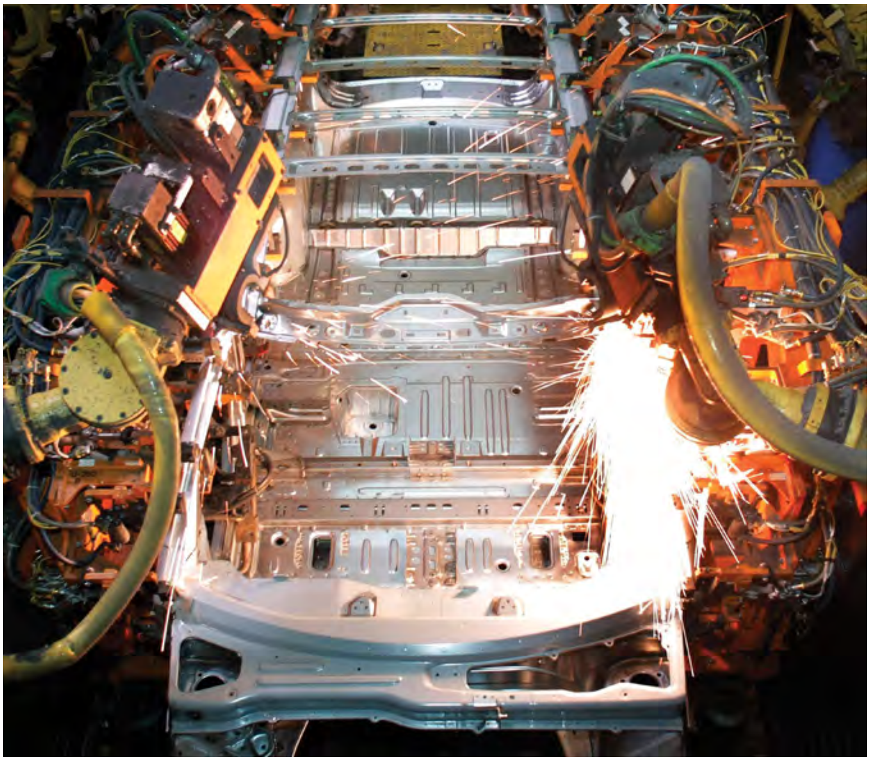
The reduction in employment in these sectors is key to understanding the anxiety that many Americans feel toward globalization. In many Americans' minds manufacturing jobs are synonymous with middle-class opportunity. Indeed, the industrial expansion of the U.S. economy from the mid-19th century to the mid-20th century resulted in high paying jobs for multiple generations of American workers, many of whom only had modest specialized skills.

In recent decades, millions of such manufacturing jobs have disappeared. In 1970, 31% of private sector employment was in manufacturing. By 2008 (just prior to the Great Recession) manufacturing jobs were only 11.7% of private sector employment. As recently as 2000, 17.3 million U.S. workers were employed in manufacturing. By 2012, this had fallen to 11.9 million employees. Much of this contraction has occurred as the U.S. economy has become more globalized. As a result, many citizens point to imports and job "outsourcing" to low-wage countries such as Mexico and China, facilitated by trade agreements, as the principal reasons for this drop in manufacturing sector opportunities.

The focus on job losses in import-competing sectors often ignores a critical fact: technological change has resulted in turmoil in the labor market as well, often as a direct result of dramatically increased productivity. One reflection of this is the increased use of advanced technology in manufacturing: many jobs once performed by Americans workers are now performed by robots. Today manufacturing output is over two and a half times its 1972 level in constant dollars, even though manufacturing employment has dropped by 33%. In fact, during the wave of outsourcing from 1997 to 2008, the value of U.S. manufacturing output actually increased by one third, to $1.65 trillion, thanks to the strongest productivity growth in the industrial world.

Critics also point to U.S. trade deficits as another piece of evidence that the free trade policies are hurting the American economy. In 2012, American consumers and businesses imported $2.3 trillion worth of foreign manufactured goods, compared to $1.5 trillion of U.S. goods exports. Moreover, this trade deficit has persisted for decades.

The pressures to act to mitigate import competition have sometimes led political leaders to "do something" to limit the pressures. However, one critical aspect for readers to recall is that the U.S. increased its openness to international competition many decades



A crossover SUV vehicle is welded by robot arms as it goes through the assembly line at the General Motors Lansing Delta Township Assembly Plant in Lansing, Michigan in March 2010. (BILL PUGLIANO/GETTY IMAGES) ago. Most of the change in the last 35 years has come from changes in other countries' domestic policies toward integration into the global economy. For example, Mexico maintained very high barriers to foreign goods and had significant policy restraints on U.S. and other foreign investment prior to 1986, which was part of a policy of "import substitution" that focused on growing Mexican firms at the exclusion of multinational corporations. After 1986, Mexican policies dramatically opened the country to foreign investment, which in turn allowed U.S. firms to consider channeling investment to Mexico. In short, most of the opportunities for U.S. firms to move to Mexico have not been because the U.S. government changed policies, but instead because Mexico adopted a more open attitude toward integrating their economy into the world. This pattern has been repeated across the developing world. This is a critical point since it means that it may be difficult for U.S. politicians to fundamentally change the opportunities for offshoring and the intensity of foreign competition.

Concrete examples help illustrate some of the economics surrounding globalization. Conventional wisdom about trade can often be summed in the following: imports are bad because they result in a loss of jobs, while exports are good because they create jobs. This view, which goes by the moniker of "mercantilism," would suggest that restricting foreign imports would help the U.S., and increasing U.S. exports should result in unambiguous benefits. Under this interpretation, a trade deficit (when the value of imports exceeds the value of exports) is a measure that a country is "losing" in its trade relations while a trade surplus means that a country is "winning." This notion is further promoted because the word "deficit" has a naturally negative connotation.

However, realities are more nuanced than this. Consider one way in which a trade deficit can fall. During a recession, a worker who has lost his job (or who fears that he will lose it) will buy fewer goods, including fewer imports. This can result in a falling trade deficit. The more severe the recession, the more likely it is that the deficit will fall. For example, the U.S. merchandising trade deficit fell from $816 billion in 2008 to $503 billion in 2009 as the financial crisis hit. For the same period, goods imports fell 35%. Few would argue that these "improvements" in the trade deficit and falling imports reflected well on the state of the U.S. economy.

Additionally, the U.S. remains the world's top exporter of services. In 2012, the U.S. exported $649 billion worth of services, and had a positive trade-in-services balance of nearly $207 billion. Simply put, a country's balance of trade, particularly looking at goods alone, is not enough to ascertain its economic health. ■

U.S. leadership and the multilateral trade system

The U.S. took the lead in designing the international trade system in the aftermath of World War II. The establishment of the General Agreement on Tariffs and Trade (GATT) in 1948 enshrined a core set of principles governing multilateral trade in goods that focused on a rules-based system of non-discrimination among GATT members. This basic approach reflected U.S. values and leadership—signatories to the GATT would negotiate binding, and transparent, commitments to a set of trade policies that would apply to all participants.

The primary commitment was that the U.S. (and all other GATT members) would agree to a maximum tariff rate for individual products that were imported from other adherents to the GATT system. In return, these other GATT partners would make similar commitments and agree not to discriminate against U.S. exports. This policy of non-discrimination toward others is known as the "most favored nation" (MFN) principle, i.e. no member is treated more favorably than any others (and no worse). The GATT system, in short, was an attempt to encourage member nations to liberalize trade and replace special bilateral arrangements (such as trade preferences for former colonies) with equal treatment across member states.

Note that this principle of non-discrimination does not mean that, for example, the U.S. tariff on automobiles will be the same as Japanese tariffs on imported cars. Instead, it means that Japan should treat all imported autos from all exporting countries in the same fashion. In addition, this GATT system did allow countries to impose further import restrictions under certain limited exemptions. These exceptions were codified in language agreed upon by all countries in the GATT.

The World Trade Organization succeeded the GATT in 1995 at the conclusion of the Uruguay Round of multilateral trade talks. The WTO expanded this tradition of non-discrimination to the areas such as services and intellectual property rights, in addition to the traditional focus on manufactured and agricultural goods. The establishment of the WTO coincided with a large influx of membership into the new organization, which has 159 members as of 2013, including every major global economy. High-income countries of North America, Europe and Japan were already long-standing and fully engaged GATT members. The new participants in the multilateral trade system came primarily from the developing world.

A critical aspect of decisionmaking at the WTO is the requirement of consensus for any changes in underlying commitments or membership. For example, when China undertook to join the WTO in the late 1990s, every WTO member had to agree. This need for consensus gives current members significant leverage over a country attempting to join the WTO. The U.S. negotiated a host of internal Chinese commitments to improve market access, intellectual property protections, and investment rules before agreeing to Chinese WTO membership. Moreover, new members are required to accept the terms that were negotiated by existing members in previous talks. However, once a country becomes a member, it has veto power over changes in the existing terms. This need for consensus has been a major contributor to the impasse in the current round of trade talks (the Doha Round) that was launched in 2002.

Teamsters hold signs reading, "NAFTA kills," during a news conference by congressmen and union leaders against the cross-border trucking program, Oct. 19, 2011, in San Diego, CA. The first Mexican carrier is set to roll into the U.S. interior within days under a new agreement, which had been stalled for years by safety concerns and political wrangling. (AP PHOTO/GREGORY BULL)

The WTO is also the venue for countries that have disputes about living up to multilateral trade commitments. The WTO "Dispute Settlement Body" (DSB) was set up with a very American approach that focuses on rules and legal procedure. Parties make arguments before an impartial body of experts (a "DSB Panel") that rules whether a country's policies are consistent with WTO commitments. The decision by the Panel can be challenged in the "Appellate Body," which makes a final assessment. However, it is important to note that these rulings are not binding on a country. For example, if the U.S. loses a case, the government can change the policy to come into compliance, enter into negotiations with the petitioning government for some sort of compensation (for example, lowering trade restrictions in another sector that will satisfy the other nation), or face WTO-approved retaliation, typically raising barriers against the "offending" country's exports. The existence of these various options are critical: the WTO cannot violate a member country's sovereignty to force its government to change any policy. In essence, the WTO dispute system is a kind of public shaming for a country not living up to its obligations.

As noted above, the U.S. and other WTO members have the right to deviate from the principle of non-discrimination in certain situations. For example, the WTO agreements recognize the right of the U.S. government to impose trade restrictions on imports that have been subsidized by foreign governments, on imported products that pose a health hazard (as long as those hazards are based on scientific evidence), or on goods deemed to constitute a national security risk (for example, banning the export of certain computer technologies as part of economic sanctions against Iran). But these deviations are based on established rules, an approach very much consistent with U.S. notions of the rule of law and due process.

Another exception allowed from the WTO principle of non-discrimination is the establishment of a "free trade agreement" (FTA). A group of WTO members can agree to eliminate all barriers among each other without having to remove all restrictions in place on other countries. For example, member states of the European Union have access to each other's markets that far exceeds what non-EU countries might receive. The U.S., Canada, and Mexico formed NAFTA in a similar way. These agreements can integrate member economies far beyond what is possible under general globalization. Such agreements have become more attractive to countries as the Doha Round negotiations have stalled (see below for discussion of TPP and TTIP, two regional trade agreements that the U.S. is currently negotiating). For the U.S., such agreements primarily result in partner countries lowering barriers to U.S. exports, since the American economy is already very open to foreign products.

The emergence of a parallel set of trade preferences among a subgroup of WTO members undercuts the system that the U.S. played the lead role in establishing after the end of World War II. Some of the bilateral and regional agreements that have been negotiated are far reaching, and include reduced barriers for goods, services, and investments. However, others are narrower, and exempt large swaths of the member countries' economies from liberalization. The resulting patchwork of rules and barriers complicate business decisions about how to organize global operations, and may lead to political tensions as some nations get better treatment than others.

Trade misconceptions

Trade policy discussion is rife with misunderstanding, both among those who support continued liberalization and those that oppose it. Below are five common misconceptions about trade.

■ U.S. manufactured goods are not competitive in the world market.

The U.S. has had a multi-billion dollar "trade deficit" (where imports of goods exceed exports of goods) for decades. In addition, many products that consumers buy in stores can easily be identified as "made in China" or "made in Mexico." These facts lead many people to assume that the U.S. "doesn't make anything anymore" or cannot compete in international markets under current rules.

The data tells a more complicated story. It is true that goods imported into the U.S. now far exceed exports to other countries. But U.S. exports have continued to grow over time, doubling from $781 billion in 2000 to $1,546 billion in 2012, an all-time record for U.S. exports. Some believe that many of U.S. exports are agricultural goods like corn or wheat. But the vast majority (87%) of U.S. exports are manufactured goods. Major categories of U.S. exports include civilian aircraft, petrochemical products, automobiles and automobile parts, and pharmaceuticals.

U.S. exports have also been robust to some of its free trade agreement partners. U.S. sales of manufacturing goods to our NAFTA-partner Mexico have increased from $101 billion in 2000 to $197 billion in 2012. Critics will respond that the U.S. had a $1.3 billion goods trade surplus the year NAFTA was signed and in 2012 has a trade deficit of $61.6 billion. However, about 60% of that deficit results from petroleum imports, which has not been the focus of critics' arguments about NAFTA's impact on U.S. manufacturing.

Of course, the growing trade deficit makes clear that U.S. imports of goods have grown even faster than the increase in exports. But the fact remains that U.S. firms, farmers, and workers can, and do, compete successfully in many international markets.

■ Free trade always lowers prices to consumers

Free trade proponents frequently argue that international trade results in lower prices and greater variety to consumers. But this is only half of the story. Economic theory also suggests that increased exports can raise prices to consumers. Domestic firms will go to the trouble to sell goods abroad (e.g. identifying foreign customers, establishing distribution networks, and dealing with customs procedures) only if the price they can receive is higher than domestic sales. In addition, goods sold internationally reduce the supply in the domestic market, which will tend to bid up the prices within the U.S. If the exported good is an input into a production process, increased foreign sales can reduce employment in downstream industries.

Workers assemble a Boeing Co. 737 airplane on line 2 at the company's factory in Renton, WA, on May 30, 2013. Boeing Co., rebounding from the 787 Dreamliners three-month grounding, is moving closer to a further production increase. (MIKE KANE/BLOOMBERG VIA GETTY IMAGES)

A recent example illustrates this phenomenon. The U.S. government has considered approving expanded exports of liquefied natural gas, which is now possible because of a revolution in new extraction techniques (so-called "fracking"). Some firms in the U.S. chemical industry have lobbied against this proposal by arguing that access to cheap natural gas has helped manufacturing jobs in the U.S. Potential exporting firms argue that exporting the good will help create well-paying jobs in the natural gas industry.

This debate reflects the fact that increased exports of a good will not make everyone better off, since it can result in higher prices in the exporting country. In addition, this example reflects the reality that trade policy choices can pit large companies and different industries against each other.

■ U.S. multinational corporations invest in low-wage countries at the expense of American workers.

Discussions about trade policy include a myriad of stories about U.S. factories shutting down and moving operations to developing countries to take advantage of low wages and lax environmental standards. There are certainly many high-profile examples that are consistent with these stories. For example, the stock of U.S. multinational manufacturing investment in China rose from $7.1 billion in 2000 to $31.5 billion in 2012. The comparable figures in Mexico were $19.5 billion (2000) to $35.6 billion (2012).

However, the vast majority of U.S. "foreign direct investment" (FDI) abroad, where a U.S. multinational either purchases an existing company or establishes a new affiliate abroad, occurs in high-wage countries with environmental and labor regulations similar to, or even more strict, than the U.S. For example, Canada had a stock of over $75.4 billion of investment by U.S. multinational corporations in the manufacturing sector in 2012 compared to $53.4 billion in 2000. This means that the $22 billion increase in the value of U.S. manufacturing investment in

Canada alone from over these twelve years almost matched the increase in China, though the percentage change was greater in China.

The focus of U.S. manufacturing investment in high-wage countries is even clearer with the inclusion of Europe. The stock of U.S. manufacturing investment in the "EU-15" (the 15 EU members) was $152 billion in 2000 and rose to $265 billion in 2012. This means that the increase in U.S. manufacturing investment in these high-wage EU countries over this period ($113 billion) was almost five times as large as the increase in China. Indeed, U.S. manufacturing investment in the Netherlands alone exceeded that of China in 2012.

A worker checks new tires at a plant in Nantong city, China, in May 2010, shortly after the WTO rejected China's appeal of a ruling that backed theU.S. duties on Chinese tire imports.
(XU CONGJUN NT/IMAGINECHINA/CORBIS)

■ International trade agreements can force the U.S. government to change domestic law.

Critics often express grave concerns about how international trade agreements may force the U.S. government to gut policies, like those protecting the environment, that come into conflict with free trade principles. One frequently cited example was a 1995 WTO dispute between the U.S. and Venezuela concerning the U.S. Clean Air Act.

These fears are entirely misguided. International trade agreements such as those embodied in the WTO do not undercut the sovereignty of a government. Instead, WTO dispute settlement procedures allow a neutral third party to make a public judgment about whether a nation is living up to its international commitments. The U.S. government would retain all rights to continue to pursue a policy judged inconsistent with WTO rules by a dispute panel. Ignoring a panel's judgment results in possible retaliation by the complaining government. But if the WTO did not exist, a country disapproving of another country's policies would still have the right to impose retaliation.

The U.S.-Venezuela case instead marks a victory for non-discriminatory treatment of foreigners. The U.S. government had regulations under the Clean Air Act that treated domestic gasoline refiners more favorably than foreign refiners. The WTO merely ruled that this was discriminatory but did not rule what particular standards were appropriate. In the end, the U.S. decided to remove the discriminatory treatment, but was under no obligation to do so. The U.S. could have demurred and Venezuela could have retaliated in response.

■ Restricting imports will increase U.S. employment

Worries about international competition can result in strong pressures for restricting imports as a way to increase jobs. These pressures are especially intense in periods of high unemployment.

Broadly speaking, U.S. presidents from both parties have resisted these calls for protection. One reason is that the U.S. has signed international agreements that it will not increase tariffs beyond certain specific levels. Ignoring these obligations can result in retaliation against U.S. exporting firms thereby destroying jobs in other sectors. In addition, import restrictions can increase prices inside the U.S. and hurting other Americans.

Two recent examples illustrate these downsides.

President George W. Bush imposed 30% tariffs on essentially all sources of imported steel in 2002, with the stated intension of helping U.S. steel firms and workers facing international competition. But the increase in tariffs helped lead to a short-run increase in the domestic price of steel, which in turn reduced employment in steel-using firms, thereby eliminating jobs in those sectors even as steelworkers retained theirs. In 2009, President Barack Obama imposed similar tariffs on Chinese tires to help U.S. workers. This resulted in an increase in the price of low-end tires (which was the area in which Chinese firms operated); these higher prices hurt poor Americans, since they were the most likely to purchase these types of tires. In the end, other countries quickly replaced China as a source of imported tires, so that the impact on U.S. employment was minimal. Ultimately, the tariffs produced an estimated increase of only 1,000 U.S. workers, a miniscule amount in the broader U.S. economic context. Neither President Bush nor President Obama was trying to hurt American firms that consume steel, or low-income Americans buying cheap tires. But import restrictions often have real, if unintended, negative consequences.

U.S. trade with China

Trade with China is likely the single most controversial aspect of U.S. international economic relations. Criticism of China's trade policy was a critical aspect of both the Obama and

Romney 2012 presidential campaigns.

Public opinion polls reflect this concern. In the November 2010 Pew poll, 76% of respondents thought that increased trade with Canada would be beneficial for the U.S. compared to only 45% for increased trade with China. The skepticism about China crossed political parties: 42% of Republicans polled were supportive compared to 49% of Democrats. There were however interesting differences based on age and education. While 56% of respondents aged 18–29 years supported increased U.S.-China trade, only 37% of those over 65 years did so. Fifty percent of those with college or advanced degrees thought that increased China trade was good for the U.S. while only 39% of those with a high school degree or less thought so.

The increased concern about China probably reflects broader concerns about the consequences of globalization, especially for relatively unskilled workers. But this nervousness also reflects the sudden ascendance of China in trade with the U.S. Imports from China to the U.S. were $62.6 billion in 1997 and increased to $425.6 billion by 2012; China has been the single largest source of imports into the U.S. since 2009, when it overtook Canada. U.S. exports to China have increased as well (from $12.8 billion in 1997 to $110.4 billion in 2012) but have been significantly smaller than imports. As a result, the U.S. has a massive bilateral trade deficit with the People's Republic of China (PRC).

Many Americans see this bilateral deficit as a clear indication that U.S. trade agreements have opened America to a flood of Chinese products. Many argue as well that U.S. trade policies have allowed American multinational corporations to close U.S. factories and reopen them in China. Another argument is that China must be cheating on its trade commitments (including "undervaluing" the Chinese currency in foreign exchange markets). Many who make these points argue further that the U.S. could and should raise trade restrictions on imports from China.

The reality is far subtler than these sentiments would suggest.

The first complication is that this dramatic increase in Chinese exports to the U.S. has taken place during a period of stability in American policies toward products made in the PRC. In particular, the U.S. has imposed the same tariffs on Chinese imports as it has on other international partners (such as Germany, Japan, Brazil and the United Kingdom) since the 1980s. However, since China was not a member of the multilateral trade system "club," the U.S. could have raised import restrictions on Chinese goods unilaterally and without limit. When the U.S. agreed (along with all other members) to allow China to join the WTO, these tariff rates were "permanent," i.e. the U.S. could not increase tariffs on Chinese goods beyond the "normal" tariffs on other WTO members. But the U.S. did not lower tariff restrictions on China after its WTO "accession." The major change instead was that the Chinese government reformed its own domestic policies. China, which was largely closed to the world economy prior to the 1980s, began to open up dramatically to foreign investment, especially in the late 1990s and early 2000s. The decreased risk for foreign firms operating within China was far more important than any change in U.S. policies.

A second serious complication with the trade deficit figures with China is that traditional statistics do not take into account the reality that many products in China are only assembled there from imported components and services, some of which may come from the U.S. Thus, "made in China" may only mean that the final stages of an import's production actually take place inside the PRC. A recent WTO report estimated that the 2008 U.S.-China trade deficit would be about 41% lower if statistics properly accounted for these effects.

Fast track

One controversial aspect of U.S. trade policy is "fast-track" authority, which allows the president to submit a completed trade agreement to Congress for an up-or-down vote without the possibility for amendment and only limited debate. This procedure, now referred to as "Trade Promotion Authority" (or TPA), has raised concerns about presidential usurpation of congressional prerogatives on both the political left and right. It is important to note that this procedure is a consequence of congressionally approved legislation: the president cannot assert this authority unilaterally.

Congress has granted fast-track authority to every president from Gerald Ford to George W. Bush. TPA lapsed in 2007 and President Obama did not ask for the authority during his first term. However, in late 2013 he started the process of requesting its renewal for the Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership. The primary argument for TPA is negotiating credibility: in its absence, Congress would be able to change the terms of a trade agreement that had been completed with other nations. But critics argue that "fast-track" undermines the ability of Congress to uphold its constitutional responsibilities.

Article I, Section 8 of the U.S. Constitution lays out the powers of the Congress. The first one noted vests Congress with the "power to lay and collect taxes, duties, imposts and excises…[and] regulate commerce with foreign nations." This clear constitutional prerogative stands in sharp contrast with other areas of foreign policy: the president is commander-in-chief, but only Congress can declare war; the president can negotiate treaties, but only the Senate can approve them (with a two-thirds majority). In contrast, the Congress has clear and exclusive constitutional power to determine trade policy (though the president could sign or veto any trade legislation). Trade agreements are not treaties but instead must be passed through the regular legislative process in both the House and the Senate. Congress may grant temporary powers to the president to act on its behalf but the constitutional prerogatives remain unchanged.

Congress took the lead in setting specific tariff rates for much of early U.S. history. Starting in 1934 (after the disastrous results of sharply increased trade restrictions in the Smoot-Hawley Tariff Act of 1930), Congress has delegated authority to the president to negotiate reciprocal trade liberalization with partner countries. A continuing complication arising out of this constitutional arrangement is that a foreign country cannot be sure that Congress will fully implement any deal negotiated with the president using standard legislative processes. Starting in 1974, Congress agreed to consider trade agreements negotiated by the president as an up-or-down vote and with limited debate, as long as the president met certain conditions. The president was required to consult with the relevant congressional committees before and during trade negotiations, and notify Congress at least 90 days before beginning formal negotiations or entering into any new trade agreements.

Fast-track authority was instrumental in a series of successful U.S. trade agreements, including the completion of various multilateral trade agreements such as the Tokyo Round (1979) and the Uruguay Round (1994), as well as bilateral trade agreements, including NAFTA (1994) and the U.S.-Korea FTA (2011). While the process smoothed negotiating efforts because of the resulting U.S. credibility, critics have become more and more concerned that the procedure led to a limited ability for Congress to play its constitutional role in trade policy in an effective manner. This skepticism about delegating this authority to the president mirrored the overall growth in nervousness about trade liberalization more generally. This criticism led to cosmetic as well as substantive changes in the procedure in 2002, the last time that Congress granted this authority. For example, President Bush's administration renamed the procedure "Trade Promotion Authority" or TPA, which sounded more benign than the informal name of "fast-track," with its hint of minimal congressional deliberation and "railroaded" outcomes. In addition, the 2002 bill required even more extensive congressional consultation and more detailed negotiating goals than in previous versions. Nonetheless, the bill only narrowly passed the Republican-controlled House by a vote of 215 to 212 in July 2002, but with a larger Senate majority (64 to 34).

Recent battles about extending TPA have focused increasingly on how much input Congress should have in the midst of negotiations. Many in Congress would like to set out clear limits on how far the president can compromise on congressional priorities and, at the very least, would argue for more detailed consultations throughout the negotiations. For example, some Democratic legislators have called for TPA legislation to specify exactly how the president would include labor and environmental standards commitments in any future U.S. free trade agreement. Any future TPA legislation will require a complex balancing act between negotiating flexibility and adherence to congressional concerns.

TAA

Most economists argue that increased trade is beneficial for a nation as a whole. However, economic theory and practical experience suggests that these benefits are not distributed equally within a nation. Some sectors "win" and

Mike Partridge, Tom Nolty and Kerry Role leave the Rock County Job Center in Wisconsin in January 2009 after attending a math class partly funded by TAA. All three were laid off when their employer, United Industries, closed. (SHANA WITTENWYLER/REDUX) some "lose." Within import-competing sectors, thousands of lives can be disrupted. When people lose their jobs because of international competition, they often may not be able to move easily into a new job with similar pay. Some will need to be retrained to enter into a new industry, others have to accept a pay cut as they accept another job, and still others may remain unemployed.

Congress established Trade Adjustment Assistance (TAA) to help employees and companies injured by trade deal with some of these negative consequences. TAA, established originally in 1962 during the Kennedy administration, provides workers with extended unemployment insurance if increased import competition results in job losses. TAA has been extended and expanded by subsequent Congresses to deal with the disruption associated with international competition.

TAA currently is divided into three distinct programs, covering workers, firms and farmers. Employees who qualify for trade adjustment assistance receive retraining, a relocation allowance and extended unemployment benefits. Companies that qualify receive loans, loan guarantees, technical assistance, and tax benefits. TAA for farmers provides free technical assistance and cash benefits to producers of certain agricultural commodities and to fishermen.

TAA supporters claim that it increases economic efficiency by reallocating labor resources. By helping workers move from import-competing jobs and sectors into positions that are more competitive, TAA helps improve the U.S. economy. Proponents also claim that trade adjustment assistance helps spread the benefits of trade more equitably throughout society and build support for continued openness to the world economy.

Opponents argue that trade adjustment assistance generates economic inefficiency by reducing workers' incentives to find new employment. They also argue that it is arbitrary to provide additional support to those negatively affected by trade but not those who are negatively hurt by other forms of economic change. They are also skeptical how effective associated retraining programs are.

Trade adjustment assistance has often been used as a "sweetener" to trade promotion authority legislation or other trade bills. TAA was included as a provision to gather bipartisan support for presidential trade negotiation authority in 1972 and 2002. TAA was passed as a standalone bill in 2011 but was an implicit part of the implementation of the Colombia and Korea free trade agreements.

Historically, "TAA for workers" benefits were only applicable for manufacturing sector employees. However, beginning in 2009, service sector and public sector workers who lost their jobs due to import competition became eligible for trade adjustment assistance. In the 2011 program reauthorization, service sector workers remained eligible, although public sector workers were not.

In fiscal year 2012, 81,510 workers received $575 million in assistance: 67% of TAA for workers recipients in fiscal year 2012 were in the manufacturing sector, while 33% were in the services sector.

Emerging agreements

The Doha Round of multilateral trade negotiations, which was launched in 2002, is at a standstill. This reflects a profound difficulty in reaching consensus among 159 WTO member countries. The lack of progress has led the U.S. to pursue other plurilateral agreements in the Pacific and with Europe. These efforts allow for continued trade and investment liberalization with critical U.S. trading partners. They may also allow for the U.S. to help establish a baseline for economic integration that mirrors American priorities and approaches.

President Obama has promoted trade liberalization within the context of "21st-century trade agreements." These agreements would go beyond eliminating traditional barriers to trade, and would "build up" core standards among parties to the agreement in a wide variety of different policies. Agreements would cover areas such as labor and environmental policies, government procurement, measures for food safety, standards for plant and animal health and intellectual property rights, among many others.

In the fall of 2011 President Obama announced that his administration would intensify its focus and involvement in Asia and the Pacific Rim nations. One of the key pillars of this "pivot to Asia," consists of deepening already strong economic ties with the region.

The economic centerpiece of this effort is the ongoing negotiations on the Trans-Pacific Partnership (TPP). The TPP began in 2003 as a trade deal among Singapore, New Zealand and Chile. In 2005 Brunei joined negotiations and in 2006 the Trans-Pacific Economic Partnership was created. President Bush notified Congress of his intention to begin negotiations with existing TPP members in late September 2008. Nine months into his first term President Obama announced that the U.S. would remain committed to TPP, provided that the agreement would expand into new areas of cooperation, including commitments to labor, governance, and environmental standards consistent with U.S. interests.

Australia, Peru, Vietnam, Malaysia, Mexico, Canada and Japan have also become TPP negotiating parties since 2008. The U.S. already has comprehensive free trade agreements with several TPP nations, including Australia, Canada, Mexico, Singapore, and Chile. The TPP could therefore result in the U.S. binding together an even greater array of trade partners in the vibrant Pacific economy. A notable country not included in the TPP negotiations is China. Some view TPP as an attempt to provide a counterweight to growing Chinese economic influence in the region.

The Trans-Pacific Partnership would be one of the most comprehensive plurilateral trade agreements ever negotiated, both because of the number of countries involved and its emphasis on new areas of commitments. The agreement reportedly will have 29 chapters on topics ranging from labor and environmental standards to rules governing e-commerce and investors' rights. Due to this complexity, one challenge that the U.S. has faced has been finding ways to apply appropriate standards across the different countries involved. This process is even more complicated given the wide divergence in economic development among TPP member countries. This has sparked debate within both the TPP negotiations and the U.S. Congress about how much variation in labor, environmental, and regulatory standards should be allowed between the developing and developed countries in the agreement.

The Obama Administration has also launched an important initiative between the U.S. and the European Union. The Transatlantic Trade and Investment Partnership (TTIP) would further integrate what is already the world's largest bilateral trading relationship. The two parties account for 40% of the world's GDP and one third of global trade. In the first round of negotiations in July of 2013 the two negotiating sides established as many as 20 areas that the agreement would cover. Among these topics were government procurement, investment, energy and raw materials, sustainable development, small- and medium-sized enterprises, and state-owned enterprises.

U.S. Secretary of State John Kerry, left, speaks with U.S. Trade Representative Michael Froman at the Trans-Pacific Partnership meet in Bali, Indonesia, Tuesday, Oct. 8, 2013. Leaders of the dozen countries involved in the U.S.-led Trans-Pacific Partnership met in Bali after the Asia-Pacific Economic Cooperation (APEC) summit to work on plans for a free trade area they hope will eventually encompass the entire region. (AP PHOTO/WONG MAYE-E)

Policy options

In the heat of an electoral battle, politicians may argue that their economic initiatives have only benefits and no costs. However, economic theory and practical experience suggest that such promises can rarely be kept. Policymakers invariably face tradeoffs when pursuing any particular policy.

Trade policy is a classic example of the juggling act between "winners" and "losers. Open trade creates opportunities for those in exporting sectors. But competition from imports can disrupt the lives of workers and communities producing a similar product. However, allowing cheaper goods to enter the country improves the spending power of millions of U.S. families and can increase the competitiveness of U.S. firms that use imported inputs.

These conflicting interests raise the following question: Is it in the broad U.S. interest to utilize restrictive trade policies on imports? For example, should the U.S. curb Chinese imports, even if it increases prices to U.S. consumers and businsses? Should the U.S still do so if the policy simply results in imports shifting to other low-cost suppliers (such as India, Indonesia or Mexico), rather than increasing U.S. jobs?

Balancing openness with protection has a long history in U.S. trade policy. However, with the rise of comprehensive 21st-century trade agreements, the definition of "trade policy" has been expanded to include not only tariffs and quotas, but also an array of new policy areas. Among these areas, environmental and labor policies have received significant focus by American policymakers. Should the U.S. insist that strict environmental and labor provisions be included in the Trans-Pacific Partnership? If so, how should they be structured to account for differences in levels of development among TPP member countries? What should be the U.S. response if other countries reject tying internal domestic policies to trade commitments?

Another topic for consideration is whether U.S. law should continue to provide special help (through Trade Adjustment Assistance) to those who lose their job to international competition. Proponents argue that TAA increases economic efficiency by helping to reallocate labor resources more quickly, and spreads the benefits of trade more equitably. However, opponents claim that it unfairly benefits certain workers by providing support to those who lose their jobs to international competition, but not to those displaced by domestic competition or technological change.

Finally, the current round of WTO negotiation, the Doha Round, has seen almost no progress in recent years. In its absence, a variety of new bilateral and regional agreements have been passed. Should the U.S. apply greater effort in reviving the multilateral Doha Round trade negotiations at the WTO, which is predicated on non-discriminatory treatment of members and originally inspired by U.S. leadership? Or are U.S. resources better spent focusing on bilateral and regional agreements? Does the U.S. stand to lose if other countries also focus on such agreements at the exclusion of the WTO? ■

discussion questions

1. Should the U.S. restrict Chinese imports, even if it increases prices to U.S. consumers and workers? Should the U.S do so even if the policy only results in shifting imports to other low-cost suppliers (e.g., India, Indonesia or Mexico) rather than increasing U.S. jobs?

2. Should the U.S. insist that strict environmental and labor provisions be included in the Trans-Pacific Partnership? If so, how should they be structured to account for differences in levels of development among TPP member countries? What should be the U.S. response if other countries reject tying internal domestic policies to trade commitments?

3. Programs such as Trade Adjustment Assistance provide special help to those who lose their job to international competition, but not to those displaced by domestic competition and technological changes. Should U.S. law continue such programs?

4. Should the United States apply greater effort in reviving the multilateral Doha Round trade negotiations at the WTO, which is predicated on non-discriminatory treatment of members and originally inspired by U.S. leadership? Or are U.S. resources better spent focusing on bilateral and regional agreements? Does the U.S. stand to lose if other countries also focus on such agreements at the exclusion of the WTO?

5. In what ways are multilateral trade agreements more effective than bilateral trade agreements? In what ways are they more constricted?

6. A common criticism of trade negotiations is that there is not enough transparency or public input. At the same time, trade negotiators need freedom to discuss positions or compromises that might hurt domestic interests groups. What is a good balance between the two? How can negotiations be more transparent without limiting negotitators' freedom?

suggested readings

Card, Andrew H., Thomas A. Daschle, Edward Alden, and Matthew J. Slaughter. **U.S. Trade and Investment Policy.** Washington: Council on Foreign Relations, 2011. 128 pp. Available free online: <http://www.cfr.org/trade/us-trade-investment-policy/p25737>. This study provides an overview of current U.S. trade policy but focuses on concrete policy recommendations for new trade initiatives and approaches.

Destler, I.M. **American Trade Politics.** Washington: Peterson Institute for International Economics, 2005. 337 pp. $25.00 (paper). A classic book about the politics and history of U.S. trade policy.

Drezner, Daniel. **U.S. Trade Strategy: Free Versus Fair**. Washington: Council on Foreign Relations, 2006. 130 pp. Available free online: <http://www.cfr.org/trade/us-trade-strategy-free-versus-fair/p11184>. This study by a prominent political scientist examines the differences between the U.S. pursuing a strategy of "free trade" as opposed to "fair trade."

Fergusson, Ian F., William H. Cooper, Remy Jurenas, and Brock R. Williams. "The Trans-Pacific Partnership: Negotiations and Issues for Congress." **Congressional Research Service**, August 2013. Available free online: <http://www.fas.org/sgp/crs/row/R42694.pdf>. This short paper provides an overview of the negotiations between the U.S. and eleven other Pacific Rim nations.

Rivola, Pietra. **The Travels of a T-Shirt in the Global Economy: An Economist Examines the Markets, Power, and Politics of Free Trade**. Hoboken, NJ: Wiley, 2005. 336 pp. $18.95 (paper). The author examines the complex system by which a simple t-shirt is produced, distributed and sold in the modern global economy.

Schrim, Stefan A. **New Rules for Global Markets: Public and Private Governance in the World Economy**. New York: Palgrave MacMillan, 2004. 288pp. $130.00 (hardcover). A collection of scholarly essays that makes the case that new rules are needed to guide further globalization, especially while attitudes about global economic governance continue to diverge.

World Trade Organization. "Trade Policy Review: United States of America." December 2012. Available free online: <http://www.wto.org/english/tratop_e/tpr_e/tp375_e.htm>. The WTO publishes periodic critical external reviews of how the U.S. is living up to its obligations under multilateral trade agreements.

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