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The Future of U.S. Trade Policy

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Introduction

The post-World War II era has seen the dramatic growth of international trade and the creation of a global trading framework based on the principles of open economies. The United States has been at the forefront of these changes, even as its reliance on trade remains near the lowest of any developed country.

The global trade agenda stalled at the beginning of the twenty-first century, leading the United States to turn to regional and bilateral free trade agreements (FTAs). Having won the passage of FTAs with Colombia, Panama, and South Korea, President Barack Obama's administration is now focused on completing two blockbuster trade deals. One is the Asia-centered Trans-Pacific Partnership (TPP), which concluded negotiations in October 2015, but still requires congressional approval. A separate deal with the European Union, the Transatlantic Trade and Investment Partnership (TTIP), remains under negotiation.

The effects of globalization, however, have increased resistance to further trade liberalization. Many in the U.S. labor movement, as well as some economists, argue that trade agreements in their current form hurt workers, degrade the U.S. manufacturing base, and exacerbate income inequality. Advocates counter that FTAs create jobs by opening new markets to U.S. exports and making it easier for U.S. companies to compete in foreign markets.

What is the state of U.S. trade policy?

The institutions of global trade policy have evolved dramatically since the end of World War II, led primarily by the United States and its European allies. In the wake of the 1944 Bretton Woods accords that created the International Monetary Fund and the World Bank, the General Agreement on Tariffs and Trade (GATT) was signed by twenty-three countries in October 1947. By 1986, GATT's membership had expanded to 123 countries, all of which had committed to the principles of lower tariffs, open economies, and freer trade. Over those four decades, global import tariffs on goods fell sharply, from an average of over 30 percent to under 5 percent.

In 1986, President Ronald Reagan launched the Uruguay Round of negotiations, which created the World Trade Organization (WTO), an agreement finalized under President Bill Clinton in 1994. The idea of a global institution to regulate trade was first proposed during the Bretton Woods Conference. However, the failure of the U.S. Senate to ratify the proposal killed the idea for decades until the emergence of the WTO.

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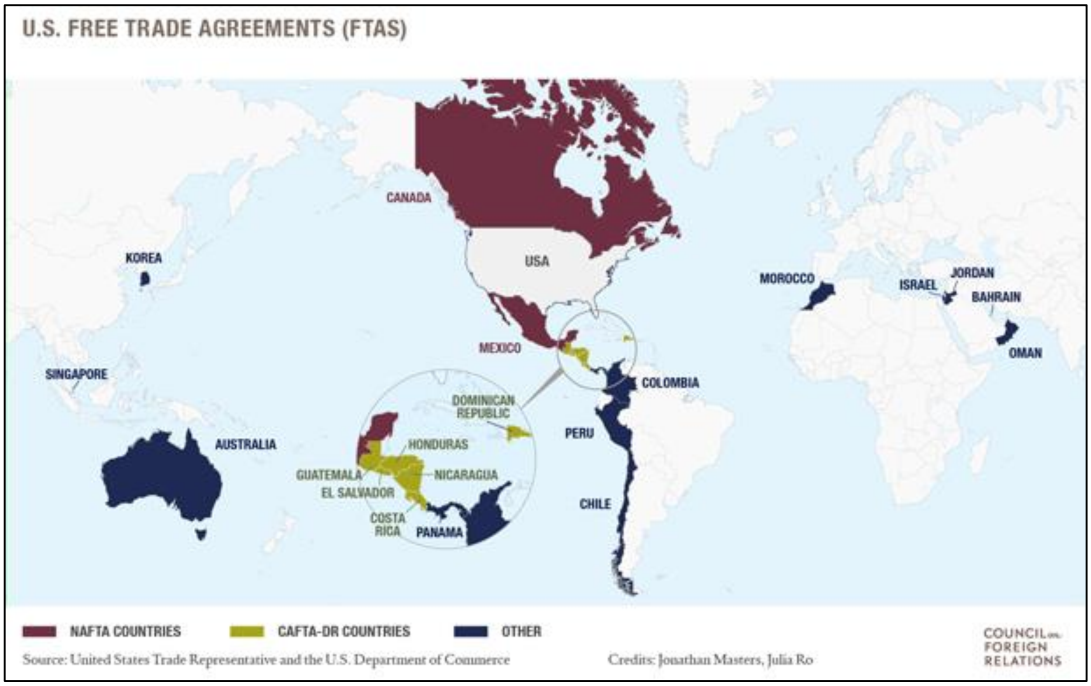
The WTO was created to address the perceived limitations of the GATT system. World trade had grown increasingly complex since the 1940s, and GATT's narrow focus on goods left out major areas such as trade in services, agriculture, intellectual property, and cross-border investment. However, the latest round of negotiations—launched in Doha, Qatar, in 2001, and dubbed the "Development Agenda" due to its focus on topics of particular interest to poorer countries—has so far failed to achieve a final deal despite over a decade of talks. Agricultural policy has been the primary sticking point, with large developing countries like India and China seeking to retain flexibility in imposing import tariffs—so-called "safeguard duties"—while pushing for reduced farm subsidies in the United States and Europe.

The Current State of U.S. Free Trade Agreements



Facing a stalled WTO process, U.S. policymakers have focused instead on completing smaller regional and bilateral trade and investment deals. The 1994 North American Free Trade Agreement (NAFTA) further integrated the U.S. economy with those of Canada and Mexico. In addition to recent bilateral deals with Colombia, Panama, and South Korea, the United States has concluded free trade agreements (FTAs) with seventeen other countries. The Obama administration has sought to advance U.S. trade interests through its 2010 National Export Initiative, a package of trade advocacy and export financing measures, as well as two pending deals, TPP and TTIP.

What are TPP and TTIP?

The TPP and TTIP are both mega-regional deals focusing on so-called "next-generation" trade issues such as agriculture, services, intellectual property, and "behind-the-border" issues of domestic liberalization. The Asia-centered TPP negotiations began in 2002 with exploratory talks among a small group of Pacific Rim countries, and President George W. Bush's administration announced its intention to join the negotiations in 2008. The Obama administration, in line with its "pivot to Asia" strategy, pushed forward with the initiative, and by 2015 the TPP had expanded to include twelve countries—including Japan but excluding China. The twelve parties reached a final agreement in October 2015.

The TPP countries account for 44 percent of total U.S. goods exports and 85 percent of total U.S. agriculture exports. Since traditional tariffs are already low, TPP focuses on a suite of reforms that include liberalizing protected sectors, streamlining customs and regulations, strengthening intellectual property protections, promoting competitive and transparent business laws, and enforcing labor and environmental standards. The stated goal is to create a fully integrated economic area and establish consistent rules for the unprecedented growth of global investment. While global trade in goods and services rose from $6 trillion to $19

trillion a year between 1985 and 2009, in that same period [global capital flows more than quadrupled] from $1.1 trillion to over $5.2 trillion a year.

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Similarly, the TTIP negotiations seek to knit the two largest economies in the world, the United States and the EU, more closely together. The U.S.-EU trade relationship already accounts for more than $1 trillion in flows of goods and services each year. Officially launched in 2013, the TTIP negotiations focus largely on on improving regulatory cooperation between the two sides. Supporters argue this will reduce costs for businesses and thus boost growth and lower consumer prices. Another priority is to ensure equal legal treatment for investors.

Negotiations on both deals face significant political hurdles. During TPP talks, Japan overcame the influence of its powerful farming lobby, Canada agreed to concessions regarding foreign access to its dairy market, and the United States had to compromise over patent protections for pharmaceuticals. Meanwhile, many Europeans are skeptical about allowing U.S. genetically modified crops (known as GMOs) and relaxing rules on food labeling, among other perceived impositions on national sovereignty.

What is the role of Congress?

The U.S. Trade Representative (USTR), part of the Executive Office of the President, negotiates agreements, but the Constitution gives the legislative branch ultimate authority over foreign trade. Every postwar trade agreement has been passed with Trade Promotion Authority (TPA), previously called "fast track," through which Congress agrees to give trade deals an expedited up-or-down vote with no amendments. Without TPA, which expired in 2007 and needed to be renewed, both TPP and TTIP would have likely faced collapse.

Bipartisan consensus on trade has frayed in recent years, and opposition from within the president's own party in Congress had threatened to sink TPA renewal. The sharp decline in U.S. manufacturing jobs, alongside the rise of corporate "offshoring" in countries with low wages and weak labor and environmental standards, led many Democrats to argue that U.S. openness to globalization has gone too far.

Skepticism had also grown among Republicans, who took control of both houses of Congress in November 2014. While Republicans have traditionally been more supportive of the U.S. trade agenda, a bloc of conservatives spoke out against renewing TPA. Some argued that granting the president such "fast-track" powers is unconstitutional, while others echoed concerns of some Democratic members that trade deals dilute U.S. sovereignty by overriding domestic regulation. Other lawmakers have said that any trade deals must address currency manipulation, a practice in which countries purposely devalue their currency to gain an export advantage.

Opposition to TPA came to a head in June 2015 as Obama's push for the legislation reached a crescendo. However, by the end of June, Republican leaders had shepherded TPA through both the House of Representatives and the Senate, sending the legislation to Obama to be signed. The law grants the executive branch expanded trade authority for six years.

Approval of the TPA jumpstarted the final stage of talks for the TPP since it gave foreign governments increased confidence in U.S. approval. With the conclusion of negotiations in October 2015, the TPP will now face a yes-or-no vote in Congress, likely in early 2016. Under the terms of TPA, once the White House notifies Congress of its intent to sign TPP, Congress will have ninety days to review the agreement.

How do these deals fit into broader U.S. foreign policy goals?

The Obama administration has consistently argued that the TPP and TTIP are central to advancing America's global leadership and assuring an international marketplace based on the values of openness and transparency. Supporters say the TPP deal would raise governance standards for many of China's trade partners, such as Malaysia and Vietnam, thus putting pressure on China to adhere more closely to international standards. Ensuring equal treatment for U.S. businesses throughout Asia, the administration says, would level the playing field for American workers.

From the perspective of the United States, the question is whether East Asian integration will be based on U.S. initiatives, or led by China. The Chinese government has supported a separate FTA for the region, the Regional Comprehensive Economic Partnership (RCEP), which would bring together sixteen countries, not including the United States. Some in the region have expressed similar concerns: Former Singaporean leader Lee Kuan Yew argued in 2013 that "without an FTA, Korea, Japan, Taiwan, and the ASEAN countries will be integrated into China's economy—an outcome to be avoided."

CFR Senior Fellow Edward Alden says that the TPP, as the biggest U.S. initiative in Asia, has acquired a major geopolitical dimension. "Asian countries are all looking to this as a symbol of whether the U.S. is committed to the East Asia region," he says. "If it fails, it will be seen as a significant U.S. retreat from engagement with Asia." Others, like the *Financial Times* Asia editor David Pilling, say that the TPP, if mishandled, has the potential to alienate the United States' Asian allies.

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A deal with the EU, meanwhile, is intended to strengthen transatlantic relations at a time when Europe is struggling on multiple fronts. Disappointing growth, high unemployment, and persistent sovereign debt issues in the eurozone have combined with a major confrontation with Russia to create a precarious situation for the continent. C. Fred Bergsten, the founding director of the Peterson Institute for International Economics and a

leading trade advocate, says Europe's struggles highlight the need for TTIP. A deal "would help energize the reforms that certainly the weaker countries in Europe need," he says.

Ultimately, according to Bergsten, when it comes to trade deals, "the overriding goal is foreign policy and national security. That's been the case in all previous U.S. trade agreements." The Kennedy Round of negotiations in the 1960s, he says, was primarily oriented towards strengthening the Atlantic alliance, while a major goal of NAFTA was to promote a more successful Mexican economy and avoid instability on the United States' southern border. "If the past is prologue, [national security] is what will eventually persuade Congress," he says.

How would expanded trade affect the United States economy?

The significance of trade to the U.S. economy has steadily expanded since the 1950s, in line with the broader expansion of global commerce over that period. Today, U.S. exports and imports are valued at more than 30 percent of U.S. GDP (PDF), up from less than 10 percent in the immediate postwar era.

That number is low compared with other advanced countries—only Japan has a lower value of total trade compared to GDP. But trade, and exports in particular, play a major role in supporting U.S. growth and employment. The Department of Commerce estimates that U.S. exports are worth $2.3 trillion, directly supporting 11.7 million jobs. In addition, over 300,000 businesses export their goods or services, 98 percent of which are small-and medium-sized enterprises (SMEs) with fewer than 500 employees. [Editor's note: A deeper examination of the economic benefits of trade can be found in this CFR Independent Task Force Report on U.S. Trade and Investment Policy.]

Some economists argue that TPP and TTIP would have a significant positive impact on the U.S. economy. In theory, giving manufacturers a more level playing field in Asia would boost U.S. exports, while lower-priced imports and the gains in productivity arising from increased competition would be a boon for consumers. The Peterson Institute has released research showing that the TPP would produce annual income gains of $78 billion for the United States. When it comes to the TTIP, the European Commission estimates (PDF) that the deal would add over $100 billion to the U.S. economy and $152 billion to the European economy every year.

For CFR's Alden, the potential benefits of these deals are based on making it easier for companies to do business across borders. "Multinationals are breaking up their supply chains all over the world," he says. "You want to give your country every possible advantage to be a location for that investment." What's more, he argues, agreement on the TPP will reinvigorate the U.S. trade agenda at a time when progress on the U.S.-EU deal has slowed.

What are the concerns?

Support for TPP and TTIP is far from unanimous. Leading economists, labor representatives, and consumer rights goups have expressed concern over their impact on

employment, inequality, national sovereignty, and safety standards. There is also substantial public concern over the effects of globalization: Polling from the Pew Research Center found that Americans' belief in the benefits of globalization tumbled sharply starting in the early 2000s, although as the economy has recovered, so has confidence in foreign trade.

The economist and Nobel laureate Paul Krugman has argued that the benefits of these "next generation" deals are overstated. Former Treasury Secretary Lawrence Summers acknowledged that "trade and globalization have meaningfully increased inequality in the United States by allowing more earning opportunities for those at the top and exposing ordinary workers to more competition." But while some research indicates that the decline of U.S. manufacturing can be partly attributed to the growth of Asian imports, Summers also pointed out that that has little to do with trade agreements themselves. Technological innovation, he says, plays a much larger role.

Critics have also raised concerns about both the transparency of the process and the implications of the deals for national sovereignty.

Still, many in the U.S. labor movement argue that trade liberalization has caused a "race to the bottom" in worker rights and environmental standards. AFL-CIO President Richard Trumka contends that the goal of recent trade deals "was not to promote America's exports—it was to make it easier for global corporations to move capital offshore. The logical outcome was trade deficits and falling wages." The Obama administration counters that its trade policy will improve labor rights monitoring and enforcement.

Currency manipulation and its impact on the trade deficit, which rose sharply in the 1990s and early 2000s, remains a major worry. China, previously the main culprit, has largely backed off from artificially devaluing its currency, but for the Peterson Institute's Bergsten it remains important to avoid potential future manipulation. China is not part of the TPP, he says, but it could someday join, and stronger controls would also help deter other TPP countries with a history of currency manipulation, such as Singapore and Malaysia.

The Widening of the U.S. Trade Deficit

Graphic Courtesy of the International Trade Administration

Meanwhile, leading Democratic and Republican members of Congress have called on the Obama administration to address manipulation. But opponents fear that it could have the unintended consequence of limiting what the U.S. government sees as legitimate monetary policy—such as quantitative easing (QE) carried out in Europe, Japan, and the United States—which also generally has the effect of weakening a nation's currency. QE, which has been central to bolstering the U.S. economic recovery, is expected to boost growth and help avoid deflation in Japan and the eurozone, which will in turn increase demand for U.S. exports. The final TPP deal sidesteps the issue.

Critics have also raised concerns about both the transparency of the process and the implications of the deals for national sovereignty. A provision known as the Investor State Dispute Settlement (ISDS) mechanism, in particular, has raised worries that international companies will be able to override local government decisions. Supporters say that the ISDS is no different than the similar clauses used in previous trade agreements.

Ultimately, much of the opposition revolves around the secrecy of the process. Lawmakers had limited access to updates on TPP negotiations, which Alden says led Congress, as well as the public, to complain of being left out of deliberations. "I am increasingly coming to the view that all of this should be done in the open," he says, rather than "a setup where the corporate interests know in great detail what the negotiating positions are and the members of Congress who have to vote on it don't."

Additional Resources

- **This Congressional Research Service research paper (2014) explores the history and implications of Free Trade Agreements on U.S. trade policy.**
- **This Gallup polling from March 2015 illustrates the changing attitudes of Americans towards the costs and benefits of global trade.**