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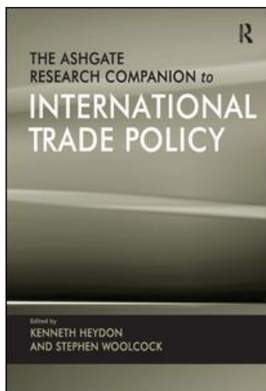

The Ashgate Research Companion To International Trade Policy

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The United States: Trade Policy Sleeping – Short Nap or Long Slumber?

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PART VII
Trade Policymaking: Regional Perspectives

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The United States: Trade Policy Sleeping – Short Nap or Long Slumber?

Gary Hufbauer and Kati Suominen

Introduction: The Long View

Three long phases, each lasting about 70 years, can be discerned in US trade policy. Between the founding of the Republic in 1788 and the Civil War in 1861, trade policy was rather liberal. For a span of 73 years, the agrarian South, an exporting region, dominated the Congress; consequently, tariffs were imposed to raise revenue and not to protect Northern industry. After the Civil War ended in 1865 until the Smoot–Hawley Tariff of 1930, a span of 65 years, the general direction of trade policy was protection and more protection. With a very few exceptions (notably the Underwood Tariff of 1913), Northern and Midwestern industrial interests controlled Congress and the name of the game was to insulate American manufacturing firms from British and German competition.

Thanks to the sharp devaluation of the dollar, President Franklin Roosevelt raised the price of gold from US$20 per ounce to US$35 per ounce in 1933, depreciating the dollar by over 50 per cent. The US trade balance improved in the midst of the Great Depression and export interests gained a bigger say in trade policy. Secretary of State Cordell Hull harnessed these interests to enact the Reciprocal Trade Agreements Act of 1934 (RTAA), authorizing the President to cut US tariffs on a bilateral and reciprocal basis. The RTAA was successively renewed until it was superseded by the Trade Expansion Act of 1962. In the meantime, the RTAA served as the legal vehicle for the United States to accede to the General Agreement on Tariffs and Trade (GATT) in 1947 and to participate in the first five rounds of GATT negotiations. Under the auspices of the GATT, with vigorous US leadership, supplemented by bilateral and regional trade agreements, the United States and its main trading partners progressively cut their barriers until the Uruguay Round commitments were fully implemented in 2005. From 1934 until 2005, a span of 71 years, US trade policy sought and delivered open markets at home and abroad.

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The central question we pose is whether, since 2005, US trade policy has entered another long phase, if not of outright protectionism reminiscent of the post-Civil War period, then of profound scepticism of open markets. After 2005, the American political system clearly balked at fresh liberalization. The Democratic Congress ignored the bilateral free trade agreements negotiated by President George W. Bush. Senator Barack Obama ran for the presidency on a platform of trade scepticism and, since taking office in 2009, President Obama has not disappointed his union supporters. But we must recall that the long era of trade liberalization after the Second World War was punctuated by pauses that can be characterized as 'short naps'. Is the period since 2005 another short nap, or is it the beginning of a long slumber – one that could turn into a nightmare for world trade?

Amazing Trade Expansion

Before turning to our central question, it is useful to explore the amazing expansion of trade since the Second World War, particularly in the last 30 years, and the policy initiatives that made this expansion possible.

Driven by Policy

US two-way trade has grown by more than 500 per cent in nominal terms since 1980, outpacing US Gross Domestic Product (GDP) growth of 370 per cent during the period. As a result, trade has become increasingly important for the US economy. The ratio of merchandise trade (imports plus exports) to US GDP grew from 17.4 per cent in 1980 and 24.6 per cent by 2008 according to World Bank World Development Indicators data. If the factors that have driven US trade in the past 40 years continue to hold for the next decade, the share of two-way US merchandise trade of GDP is bound to reach nearly 33 per cent.

The US trade profile has also changed qualitatively over the post-war decades. US commerce is increasingly oriented to emerging markets; while Canada remains the lead US trading partner, China and Mexico are second and third and some 40 per cent of US trade is carried out with middle-income nations. US trade in manufactured goods is already mostly with the emerging economies. Moreover, US trade is increasingly intra-industry rather than inter-industry, reflecting an era of vertical supply chains. Finally, services trade is growing as a share of total US commerce. Services exports more than doubled as a share of US exports between 1980 and 2008, from 17 per cent to 40 per cent, according to WTO Trade Statistics.

Three strong drivers have expanded US trade: policy liberalization, general economic growth and improvements in global communications and transportation. Hufbauer and Adler (2010) calculate that roughly one-quarter of US merchandise trade growth between 1980 and 2005 can be attributed to policy liberalization. The other three-quarters can be explained by the general expansion of the world

economy (72 per cent) and falling transportation costs (3 per cent). In other words, over the past three decades, nearly all the expansion of US trade *relative* to GDP can be explained by policy liberalization.

Patterns of Trade Liberalization

When the dust settled on the Smoot–Hawley Tariff of 1930, the Congress had raised duties on thousands of imported goods to record heights, ignoring the pleas of hundreds of economists. The simple average tariff level reached 20 per cent and the American legislation precipitated a global closure of markets.

The tide changed and the next long phase of trade policy began when the Congress passed the Reciprocal Trade Agreements Act (RTAA) in 1934. The RTAA authorized the president to negotiate reductions of up to half of Smoot–Hawley duties on a reciprocal basis. By 1945 the United States had entered into 32 bilateral agreements under the RTAA with 27 countries; these cut average tariff rates by some 44 per cent and covered a total of 64 per cent of US dutiable imports (Jackson et al. 1984).

Under the auspices of GATT negotiations (supplemented by bilateral free trade agreements), the average US tariff level was reduced to 3.5 per cent in 2008, much below the 9.6 per cent for China, 13 per cent for India, 12.6 per cent for Mexico, 11.6 per cent for Argentina, 12.2 per cent for Brazil and the flat 6 per cent for Chile, and also well below the European Union's (EU) 5.5 per cent (WTO Tariff Profile database). US tariff cuts have been made unilaterally, in bilateral trade agreements and in multilateral trade rounds. US applied tariffs are on a par with the level of tariff bindings in the WTO. Agriculture and textiles remain the sensitive sectors, with more elevated tariffs than in manufactures (see Table 23.1). US trading partners have complemented the United States' own opening, furthering US trade expansion; the average most-favoured-nation (MFN) applied rates in the United States' major export destinations dropped from around 10.3 per cent in 1990 to about 7.4 per cent by about 2004 and weighted non-tariff barriers (calculated as *ad valorem* tariff equivalents) essentially halved (see Table 23.2).

After the Second World War, American leaders gave priority to the multilateral trade regime and the seven successive GATT rounds that culminated in the conclusion of the Uruguay Round and the formation of the WTO in 1994. In the 1990s, however, the United States made a consequential change in its trade policy by embracing regionalism and bilateral preferential trade agreements. In 1988, Washington signed a free trade agreement (FTA) with Canada, followed by launching the Asia-Pacific Economic Cooperation (APEC) forum with Canada and ten Asia-Pacific economies in 1989. These pacts were followed by the watershed North American Free Trade Agreement (NAFTA) with Canada and Mexico in 1994 and 12 additional FTAs with partners in the Americas, Asia and the Middle East, ratified between 2001 and 2007 (see Table 23.3).

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Table 23.1 US tariffs and imports by product group in 2010

	Bound duties			MFN Applied duties		Imports	
	AVG	Duty-free	Binding	AVG	Duty-free	Share	Duty-free
Product Groups		%			%	%	%
Animal Products	2.4	31.7	100	2.5	31.0	0.5	26.8
Dairy Products	20.8	0.2	100	23.0	0.3	0.1	15.1
Fruit, vegetables, plants	4.7	23.8	100	5.0	20.1	1.0	23.1
Coffee, tea	3.4	53.3	100	3.8	53.5	0.4	79.2
Cereals and preparations	3.5	19.9	100	3.9	21.0	0.5	34.8
Oilseeds, fats and oils	4.4	29.8	100	4.8	24.3	0.2	33.4
Sugars and confectionery	13.4	2.1	100	16.1	2.9	0.1	8.8
Beverages and Tobacco	16.8	29.0	100	15.5	27.3	1.0	49.4
Cotton	4.7	40.0	100	5.2	38.3	0.0	75.3
Other agricultural products	1.0	66.5	100	1.2	59.7	0.2	68.7
Fish and fish products	1.1	78.1	100	1.0	81.0	0.7	91.8
Minerals and metals	1.7	60.0	100	1.7	60.9	13.8	72.0
Petroleum	1.8	0	50	1.4	20.0	13.9	0
Chemicals	2.9	37.2	100	2.8	40.5	9.2	66.2
Woods, paper	0.4	91.6	100	0.5	89.9	4.2	91.1
Textiles	7.8	17.1	100	8.0	15.1	1.9	12.1
Clothing	11.4	3.4	100	11.7	2.8	4.0	0.7
Leather, footwear	4.6	38.7	100	3.9	38.9	2.2	17.6
Non-electrical machinery	1.2	66.3	100	1.2	65.0	13.7	80.7
Electrical machinery	1.6	49.8	100	1.7	48.4	12.5	64.3
Transport equipment	3.1	54.5	100	3.0	55.7	12.8	13.8
Manufactures, n.e.s	2.2	48.1	100	2.4	44.9	7.0	73.7

Source: WTO (2010).

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Table 23.2 Average *ad valorem* rates of protection faced by US exports, past and present

	MFN applied tariffs		Actual tariffs		NTBs	
Country	**I**	**II**	**III**	**IV**	**VII**	**VIII**
	Past tariffs (%)	**Present tariffs (%)**	**Past tariffs (%)**	**Present tariffs (%)**	**Past NTB (%)**	**Present NTB (%)**
Australia	15.1	4.3	15.1	1.3	16.9	8.3
Brazil	34.7	13.2	34.7	13.2	33.5	16.4
Canada	9.1	5.9	5.4	1	9.1	4.5
China	38.9	10.4	38.9	10.4	11.5	5.6
EU15	7.3	5.6	7.3	5.6	21.6	10.6
Hong Kong	0	0	0	0	5.8	2.8
India	81.1	23.3	81.1	23.3	29.6	14.5
Indonesia	18.1	6.2	18.1	6.2	9.7	4.7
Japan	4.8	4.5	4.8	4.5	20.5	10
Korea	13.1	10.3	13.1	10.3	20.5	10
Malaysia	12.6	7.4	12.6	7.4	64.1	31.4
Mexico	14.6	13.6	14.6	0	32.7	16
Philippines	22.7	5.5	22.7	5.5	59.3	29
Singapore	0.4	0	0.4	0	5.8	2.8
Taiwan	10.5	7.1	10.5	7.1	64.1	31.4
Thailand	37.7	13.8	37.7	13.8	9	4.4
Venezuela	16.9	12.4	16.9	12.4	19.3	9.5
Weighted average	10.3	7.4	9.4	3.9	20.5	10.3

Note: Due to data constraints, past tariffs refer to the average of three years in the period of 1988–1993, while present tariffs are the average of three years in the period 2002-2005.
Source: Hufbauer and Adler (2010).

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Table 23.3 Free trade agreements signed by the United States

Name	Year Ratified
Israel	1985
Canada	1988
NAFTA (Canada, Mexico)	1994
Jordan	2001
Chile	2004
Singapore	2004
CAFTA (Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua)	2005
Australia	2005
Bahrain	2006
Morocco	2006
Oman	2009
Peru	2009
Colombia	NA
Korea	NA
Panama	NA
Trans-Pacific Partnership	Under negotiation

Source: USTR (2010).

Pursuit of FTAs successively by the Bush, Clinton and Bush Administrations reflected frustration with the slow pace of multilateral talks and the practical fact that bilateral agreements generally enable faster and deeper liberalization than multilateral rounds, something of interest to US exporters and investors. The United States brings tariffs down to zero on more than 90 per cent of all imports by the fifth year of implementation of its FTAs and some 97 per cent by the tenth year (Estevadeordal, Shearer and Suominen 2009). Bilateral partners are expected to offer reciprocal cuts. Moreover FTAs signed by the United States are usually highly comprehensive, covering such issues as investment, services, intellectual property rights and dispute settlement – subjects covered not at all or only lightly in the GATT and WTO (Estevadeordal, Suominen and Teh 2009). Granted, restrictive rules of origin in sensitive sectors restrict trade in FTAs and there are also reservations to exclude sub-national commitments in services and government procurement (Estevadeordal and Suominen 2009a; Heydon and Woolcock 2009; Suominen 2004). Overall, however, US agreements are still more liberalizing than most FTAs, including those formed by the European Union.

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Short Naps in the Post-War Era

Post-war trade policies delivered immense benefits to the US economy. Bradford et al. (2005) contend that the United States has gained no less than $1 trillion *annually* from more intense integration with the global economy in the post-war era and stands to gain another $500 billion per year through a complete embrace of free trade, at home and abroad. Similarly, Aldonas et al. (2007) argue that each American household has gained as much as $15,000 a year due to freer trade.

Benefits notwithstanding, few policy issues are as contentious among Americans as trade. On three occasions since the Second World War, even prior to 2005, the liberalization agenda slowed and slippage occurred (Suominen 2009). In these episodes, the chefs of the protectionist stew were high unemployment, a strong dollar and a ballooning trade deficit (Bergsten 2005; Irwin 2005). Import competing companies and offshoring added seasoning to the broth.

Backtracking in the 1970s

In the 1970s, the US economy was buffeted by oil shocks, unemployment soared to 8.5 per cent and the trade deficit widened. The political response was 'administered protection', along with a dose of currency realignments. Congress loosened the tests for obtaining administrative relief from rising imports (Destler 1995). Following the Trade Act of 1974, petitions for escape clause relief rose from two in 1973 to 13 in 1975, and countervailing duty (CVD) investigations shot up from one in 1973 to 38 in 1975. Between 1975 and 1990, anti-dumping (AD) petitions scored a 48 per cent success rate, up from 13 per cent under the law before 1974. Currency politics mattered as well; the United States agreed to eliminate its across-the-board import surcharge adopted alongside the termination of gold convertibility of the dollar only if Europeans and Japan agreed to launch the multilateral Tokyo Round trade negotiations (1974–9) (Bergsten 1998).

Pause in the 1980s

In the 1980s, the United States embarked on policies aimed at sharpening the edge of American firms in global markets and ensuring reciprocity with US trade partners. The policy mix was heavy both on import relief and export promotion, again with a big helping of currency realignment. These efforts were rooted in unemployment rates above 9 per cent in 1982–3, the strong dollar and the rise of Japan in global trade. Washington helped bring the dollar's value down to competitive levels with the famous Plaza Accord of 1985. By mid-decade, the US government had already granted trade relief for a range of industries, notably autos, textiles, steel and semiconductors. The 1980s were a heyday of AD, CVD and escape clause activity. AD cases filed grew from less than 20 in 1981 to hover between 60 and 70 in 1982 and 1984–6, while CVD cases shot up from the teens to 140 in 1982 and 1984 saw

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seven escape clause investigations. The 1988 Omnibus Trade Act attacked foreign trade barriers via the so-called Super 301 provision, which enabled the United States Trade Representative (USTR) to impose retaliatory penalties on countries that pursued 'systematically unfair' trade practices.

Lull in the Late 1990s

Once NAFTA was ratified in 1993 and the Uruguay Round in 1995, the Clinton Administration took a rest on new trade initiatives. In the second half of the 1990s, Washington focused on trade barriers in Japan and China, and in both instances huge currency adjustments were essential parts of the policy mix. But with good economic times in the late 1990s, the United States took a less direct approach and addressed trade differences through the WTO system. Cases were brought to the dispute settlement mechanism and the USTR engaged in protracted negotiations to liberalize Chinese trade barriers prior to its WTO accession (finally achieved in 2001, during the Bush Administration).

Another Nap or Long Slumber?

US trade policy after 2005 echoes the tones sounded in past decades. Congress is troubled by foreign competition in import-competing sectors, while the president seeks to promote US export interests. High unemployment, a strong dollar and a huge trade deficit are all feeding protectionist appetites. In addition, three new forces are at play.

Firstly, non-tariff barriers (NTBs), limiting trade in goods but especially services, are systematically deployed as backstops and substitutes for tariff protection around the world. The thorniest ones take the shape of regulations and standards that inadvertently or intentionally discriminate against foreign goods and services. Liberalization requires the reconciliation of different regulations and standards between the United States and its major partners, a process hampered by the turf claims and appeals to sovereign authority.

Secondly, inequality has deepened and incomes have stagnated, feeding deep unease among the United States' vast middle class, a familiar precursor to protectionism. In 2009, the 95th percentile of American wage earners made on average almost nine times more than the bottom quarter of the wage distribution, as opposed to a factor of six in 1970 and seven in 1980, according to US Census Bureau data. The median household income for American families has increased very little since 1987, when it stood at $47,071 (in 2009 dollars) as opposed to US$49,777 in 2009.

Thirdly, the inexorable rise of India and China, while offering major opportunities for US multinationals and export industries and benefiting American consumers, promises to pressure US producers not only of manufactured goods but also of a

range of IT-related services. China's export profile is shifting towards the high-tech sector, presaging direct competition with the United States (Bussière and Mehl 2008). Worries about jobs and wages have now spread to service sector workers who are fearful of offshoring in information technology and business services. The blue-collar blues of the 1990s are coupled by white-collar worries in the 2000s.

Growing Trade Angst

Americans' sense of economic stagnation at home and growing competition from abroad translate into a drop in poll numbers supporting free trade. In a 24–26 June 2005 CNN/*USA Today*/Gallup poll, 48 per cent of Americans said trade is a 'threat to the economy', while 44 per cent agreed that trade is an 'opportunity for economic growth' (see Figure 23.1). This was the first time since the hard times of 1992 that a plurality of Americans saw foreign trade as a threat. A 2007 Pew Foundation poll arrived at similar results. While 59 per cent of Americans still supported free trade, the level had dropped markedly from the 78 per cent recorded in 2002. One striking finding was that even 31 per cent of Republicans viewed trade in a negative light – the highest figure in decades.

Similarly, in a March–April 2008 *New York Times*–CBS News poll, 58 per cent of Americans viewed foreign trade as good for the economy, down from 69 per cent in the 1996, while 32 per cent viewed it as bad, up from 17 per cent in 1996. Only 24 per cent agreed that 'free trade must be allowed, even if domestic industries are hurt by foreign competition', down from 36 per cent in 1996. The Great Recession of 2008–9 aggravated these concerns, as millions lost their jobs and unemployment shot up to 30-year highs. By March 2009, almost half of Americans said they feared for their jobs, as opposed to 28 per cent a year prior (CNBC 2009). An October 2010 *Wall Street Journal*/NBC News Poll showed that Americans of all income groups have progressively soured on free trade, with majorities of all segments and both political parties now considering trade agreements to be harmful. In total, 53 per cent of Americas thought free trade agreements had hurt the United States, up from 32 per cent in 1999, while fewer than 20 per cent saw them as having helped, down from more than a third in 1999 (Murray and Belkin 2010).

Falsely Accused of Job Churn

A familiar axiom of trade policy holds that the benefits of liberalization are dispersed, but the pain of liberalization is targeted and sharp (see Chapter 2) – which, in political discourse, means 'lost jobs'. But is the charge justified? Does trade cause job losses and abet inequality? Consider recent research. Of the 16 to 18 million jobs lost annually in the United States, approximately three to four million are displaced workers, who face serious adjustment costs, and of those, about 500,000 workers are displaced by import competition (Rosen 2008). This represents approximately 3 per cent of total job losses, 15 per cent of displaced

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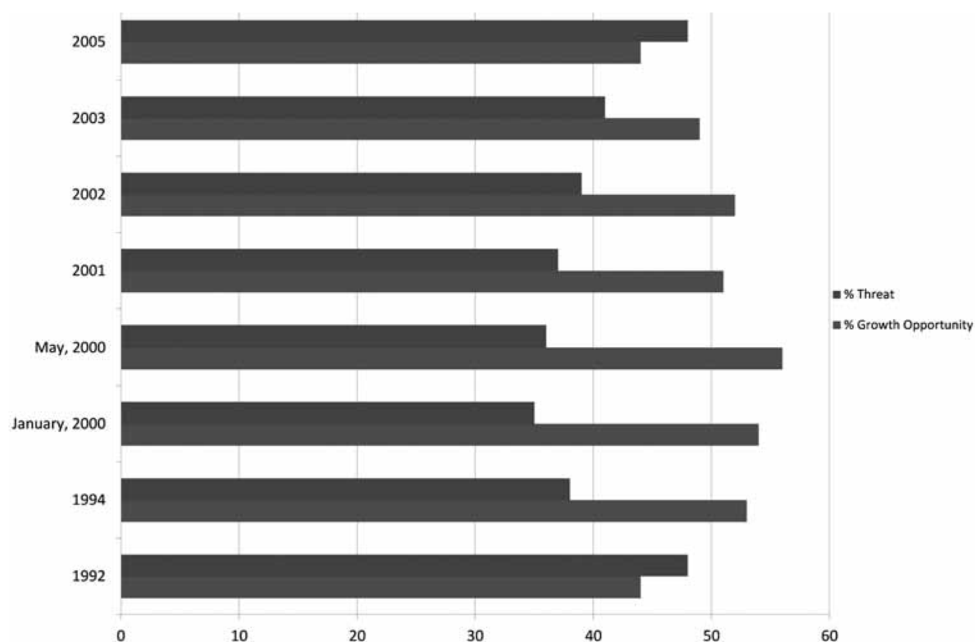

Figure 23.1 Percentage of Americans seeing trade as a 'growth opportunity' or as a 'threat', 1992–2005

Note: The dark line represents '% Threat', the lighter line represents '% Growth Opportunity'.
Source: CNN, *USA Today* and Gallup Organization (2005), www.gallup.com/poll/17605/more–americans–see–threat–opportunity–foreign–trade.aspx.

workers and about one-quarter of workers affected by mass layoffs.[1] Rather than trade, the primary reason for massive job churn is technological change. Among the fastest declining jobs in America from now until 2016 will be such occupations as file clerks, order fillers, photographic processing, sewing machine operators, cashiers, packers and packagers and electrical equipment operators.[2] The roster mirrors innovations ranging from the Internet to digital cameras and automatic packaging machines.

What about offshoring? According to estimates by Jensen and Kletzer (2008), the total number of US jobs that might be outsourced to low-wage countries over the next 20 years is 15–20 million and approximately 40 per cent of these jobs will be in the manufacturing sector. Less well-known is that more jobs are in-shored than

1 The literature on jobs and trade is vast. See, for example, Amiti and Wei (2005), Becker et al. (2009), Bivens (2007), Falk and Wolfmayr (2005), Kletzer (2001) and OECD (2007).

2 See the top-30 list at: www.bls.gov/news.release/ecopro.t08.htm.

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are offshored. Slaughter (2007) shows that the number of manufacturing jobs in-sourced to the United States between 1987 and 2002 grew by 82 per cent, while the number of US jobs outsourced overseas grew by only 23 per cent. The United States is a *net exporter* of business services to India, meaning it exports more services to India than India exports to the United States. Moreover, in-sourced jobs usually pay better wages than outsourced jobs.

Does Trade Make the Rich Richer?

Is there a connection between inequality and trade? Lawrence (2008) argues that increased trade probably played a part in causing greater US inequality in the 1980s when imports of manufactured goods from developing countries boomed. By the 1990s, however, many items imported from developing countries were no longer made in the United States. More imports of items no longer made at home cannot possibly undermine wages in the United States. Between 1981 and 2006, without increased trade, blue-collar workers in the United States might have earned 1.4 per cent more than they did, and most of the gain would have come before 2000. Inequality, like job churn, is largely caused by factors other than trade – especially technological change.

Trade Policy in the Obama Administration

Trade angst in the United States has translated into an anti-trade Congress and an Obama Administration that is lukewarm about liberalization. During the 2008 presidential campaign, Obama called for a pause on FTAs, floated an idea to renegotiate NAFTA and hardly mentioned the Doha Round. Rather, the Obama campaign pledged a 'pause' on trade agreements and sturdier trade enforcement. The American Federation of Labour–Congress of Industrial Organizations (AFL-CIO), an influential voice during the campaign, petitioned the incoming administration to suspend bargaining on all new trade and investment pacts and to review all past agreements.[3]

Once elected, President Obama adopted a more moderate tone and recruited a number of senior officials with pro-trade leanings. But the Administration's first two years, 2009 and 2010, saw little movement on trade. FTAs with Colombia, Panama and Korea, along with the Doha Round, were kept in the cooler. To the extent that trade policy was noticed, the Administration focused on enforcing

[3] The AFL-CIO called for 'new administration priorities and benchmarks' for the pending three FTAs and a new template for future trade agreements. The federation also strongly backs the TRADE Act, which would restore congressional primacy in setting the mandates for US trade negotiators, which would order them to write enforceable labour rights into the texts of US trade agreements.

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the trade obligations of foreign partners. However, in February 2010, President Obama pledged to double American exports within five years. This goal seems to have served as a wedge for fresh incremental liberalization in the second half of the Obama Administration's term, as the president gave a nod to the pending trade deals, arguing they are about exports, not imports. That the House of Representatives had turned Republican helped grease the president's selling job.

Anti-Trade Congress

From the 1970s up until the implementation of NAFTA in 1994, trade deals usually garnered support from more than three-quarters of Members of Congress in both political parties. Since then, Congressional support, particularly from Democrats, has dwindled (see Figure 23.2). In 2001, Trade Promotion Authority (TPA), which allows for an up-or-down vote in the Congress on trade agreements negotiated by the president, was barely renewed in the House by a vote of 215–214, while the US–Central America Free Trade Agreement (DR–CAFTA) squeaked through by 217–215 in 2005.

Such narrow margins contrast sharply with the 395–7 nod to the Tokyo Round package in 1979, the 288–148 vote on the Uruguay Round in 1994 and even the passage of NAFTA by a 34 vote majority (200–234) in 1993.

Congress has long traced the growing trade deficit of the United States to the undervalued Chinese currency, arguing that Beijing is unfairly driving US companies out of business (Eichengreen and Irwin 2007). In 2003, veteran Senators Charles Schumer of New York and Leslie Graham of North Carolina threatened a blanket 27.5 per cent tariff against Chinese imports unless Beijing revalued the RMB. Similarly, the 109th Congress (2005–7) introduced 27 pieces of anti-China trade legislation (Scheve and Slaughter 2007). In July 2005, China did agree to revaluation and the RMB ended up rising by 21 per cent against the dollar until July 2008, when again it was fixed. However, the currency adjustment did little to alter trade balances or quiet Congress. The 110th Congress (2007–9) put forth some dozen China bills, many of which aimed to force an overhaul of China's exchange rate regime (Roach 2009).

While the Obama Administration sought to deal with the currency issue privately with Beijing as well as multilaterally in the G-20 and the IMF, the 111th Congress (2009–11), seconded by Paul Krugman (2010), revived its calls for steep penalty tariffs against China. On 29 September 2010, the US House of Representatives approved by an overwhelming margin a bill that is interpreted to open the door for an imposition of trade remedies against alleged currency manipulation.[4] As jobless claims kept mounting, the 112th Congress adamantly upheld the law; at the

[4] Specifically, the bill narrows the Commerce Department's discretion to refuse to initiate a countervailing duty investigation on an allegation of export contingency and specifies how the Department must calculate the subsidy benefit.

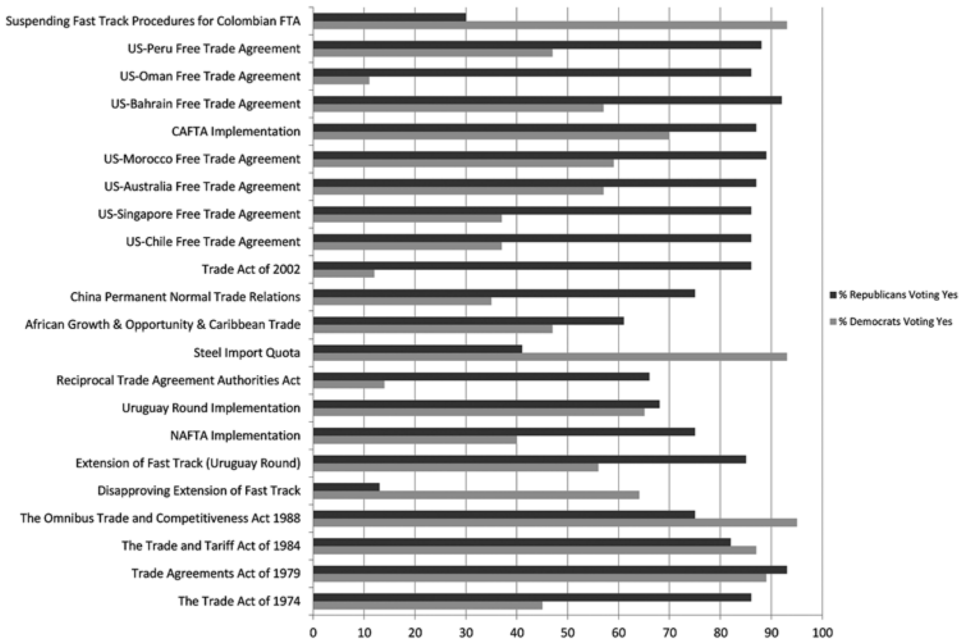

Figure 23.2 Votes on US flagship trade agreements and measures in the House of Representatives, 1973–2009
Source: Brainard (2008).

same time, the White House, entering into campaign mode, took a tougher stance towards Beijing.

Protectionist Responses to the Crisis

At various Summit gatherings, the G-20 announced a standstill on protectionism and reiterated its commitment to conclude the Doha Round. But nearly all G-20 members, including the United States and China, implemented and proposed measures that contravened these commitments. The damage was far less than amid the Great Depression, but the new restrictions are still taking a toll on global supply chains.[5] According to data by the Global Trade Alert, by October 2011, The G20 members alone had implemented as many as 781 protective measures since the first G20 pledge in November 2008 (Evenett 2011). Worse, the protectionist trend continued rather than reversing as the global recovery commenced.

The bulk of new protectionism takes the form of obscure discrimination that has become the hallmark of barriers designed to skirt the GATT/WTO system of tariff

5 We thank Kenneth Heydon for this notion.

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bindings (Hufbauer et al. 2010). The appetite for protectionism grows amid economic downturns, paradoxically just when trade expansion is needed to stimulate the world economy. Consider a few responses to the crisis. Anti-dumping filings grew from 165 to 201 between 2007 and the end of 2009, and proceedings that led to the imposition of duties grew from 108 to 138. US anti-dumping filings, according to the WTO Anti-Dumping database, increased from 12 in 2006 and 8 in 2007 to 28 in 2008 and 20 in 2009, abating to 9 by 2011. Fiscal stimulus packages enacted around the world often contained industrial subsidies that can distort the patterns of global commerce and trigger WTO disputes over 'illegal state aids'. Still another negative was exclusion of foreign suppliers. In February 2009, the US Congress passed and President Obama promptly signed the 'Buy American' provisions in the US economic stimulus plan – designed to make recipients of stimulus money source their inputs solely from US suppliers. Hufbauer and Schott (2009) estimated that retaliation by other nations affecting just 1 per cent of US exports would erase 6,500 American jobs.

Protectionism also spilled over to seemingly non-trade policy areas. The Lieberman–Warner–Boxer bill, among the more ambitious US efforts at climate legislation to reach a Senate vote in 2008, would have required foreign suppliers, based in countries that had not taken 'comparable action' to US control measures, to purchase greenhouse gas allowances before their exports would be allowed into the US market. The bill was defeated mainly due to fierce lobbying by energy-intensive industries. But the idea of border adjustments based on 'comparability' made its way into the Waxman–Markey bill which was narrowly approved by the House in 2009. How climate legislation will fare in future and what trade restrictions will be carried over from previous bills, are matters still to be decided.

Conclusion: Can Policy Avoid a Long Slumber?

US leadership in world affairs has been intimately associated with the long liberal phase in trade policy that began in 1934. If the United States now abdicates leadership on the international economic agenda centred on trade, the damage to US standing across a range of issue areas could be considerable. The extent to which other nations both emulate and react to the United States cannot be underestimated. Conversely, leadership by the United States is imperative for getting world trade and the global economy humming.

Yet today, there are ominous signs pointing to a long slumber in the realm of trade policy. In this concluding section, we outline five policy steps that might awaken trade policy, asleep since 2005, in two or three years, rather than two or three decades.

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Conclude the Doha Round

The United States, working foremost with China, must conclude the decade-old Doha Round. Doha would be a great means for injecting vitality in the uncertain global economy and safeguarding the GATT/WTO system the United States has championed in the past six decades. Hufbauer et al. (2010) propose a formula for an ambitious yet balanced deal between the interests of developed and developing countries. Under the agreement, G-20 nations should provide modest increments in market access commitments beyond tariff and subsidy cuts in agriculture and non-agricultural market access (NAMA), slash red tape and cut transactions costs for exporting and importing goods and services. They argue that such measures would lead to a world GDP gain of almost $300 billion per annum.

Conversely, failure to conclude Doha could freeze multilateral trade cooperation for another decade. In the vacuum left by a multilateral failure, various fates can be imagined. Bouët and Laborde (2008) illustrate a scenario where all tariffs revert to bound levels, world trade contracts by $1,770 billion and world income shrinks by $448 billion. This is an extreme scenario, but quantitative studies cannot account for the blow that a Doha collapse could deal to the legitimacy of the multilateral trading system. Core rules and institutions, such as national treatment, MFN treatment and the dispute settlement mechanism, would all be called into question. The political fallout could be severe.

Post-Doha, attention needs to shift to reforming the WTO system (Hufbauer and Suominen 2010). Doha's troubles are amplified by the WTO's cumbersome negotiating principles of a 'single undertaking' and 'consensus'. In a setting where over 150 countries contest a multifaceted agenda, these principles not only water down deals, but create formidable obstacles to any deal at all. Future negotiations must be based on plurilateralism, the negotiating principle effectively in place through the Tokyo Round. Instead of requiring the consent of the entire membership, plurilaterals would enable coalitions of the willing to strike agreements in selected issue areas, like trade in services or civil aircraft or rules on climate change. The benefit of plurilateralism over multilateralism is both depth of agreement and speed of negotiation; those who do not want to accede are left out and do not constrain the talks.

A particular area that needs to be tackled at the multilateral level is the effect of climate change rules on trade. A rise of 'green protectionism' in the United States or other advanced nations would doubtless lead to trade disputes with China, India and other emerging industrial powers, and result in bad economic outcomes. The United States should spearhead efforts to craft a global Climate Code whereby leading emitters of greenhouse gases enumerate permitted and proscribed trade measures (Hufbauer et al. 2009).

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Curb Global Imbalances

The record of the past six years shows quite clearly that policy liberalization cannot move forward when current account imbalances are large (over 3 per cent of GDP), growing and persistent for systemically important countries. Some countries (such as China and India) have an insatiable appetite for US, European and Japanese financial assets. But feeding that appetite through large export surpluses seems sure to provoke protective responses in the deficit countries. US fiscal discipline and global currency realignments will both be needed to bring current account imbalances to politically acceptable levels. In addition, aggressive creation of SDRs under the auspices of the International Monetary Fund could quench some of the appetite for financial assets denominated in dollars, euros or yen (Hufbauer and Suominen 2010).

From Bilateralism to FTA Convergence

Multilateralism needs to be complemented by strategic bilateralism and regionalism. The Obama Administration needs to seek a renewal of TPA, which is critical for enticing other countries to negotiate with the United States, as it ensures that Congress will not modify provisions negotiated by the president's team after the agreement is signed. Given the United States' open trade regime, further bilateral and regional agreements would deliver greater export gains and investment opportunities for US industries than for partner nations.

In particular, the United States also needs to revive engagement with the Asia-Pacific region. APEC has failed to meet its trade liberalization goals, but the Trans-Pacific Partnership (TPP) agreement can be a substitute and a strategic counterweight vis-à-vis China, if the nine existing members pursued forceful and comprehensive liberalization and enticed four other important economies to join – Japan, Korea, Mexico and Canada. Washington should also seek to revive the transatlantic economy by pursuing liberalization with Europe of trade in services and deep cooperation on standards, customs procedures and competition rules.

Bilateral and regional agreements must not be pursued as a substitute for, but as a complement to, multilateralism and Washington needs to explore ways to 'multilateralize' core provisions with ad hoc coalitions of the willing in the WTO. Further, the United States needs to seek to knit together its FTAs, for example through common and liberal rules of origin. Convergence efforts are particularly viable in the Western Hemisphere, where the United States already has (or will soon have) FTAs with Canada, Mexico, all Central American nations, Peru, Colombia and Chile (Estevadeordal and Suominen 2009b). Linking the criss-crossing trade deals would enable Washington to move closer to the aspiration of the Free Trade Area of the Americas born two decades ago, only to die in 2003. More far-reaching would be an economic zone that converged the FTAs that the United States and European Union respectively have with such common partners as Mexico, Canada, and Korea (Trans-Atlantic Task Force on Trade 2012). Much

like the US bilateral agreements with Korea, Colombia, and Panama, such broad-based regional agreements would advance US foreign policy, emphasizing US resolve to cooperate with its partners and allies.

Safety Nets and Ladders

Whatever the strength of causation (and we think it is slight), the political case for trade liberalization cannot be made if median family incomes in the United States stagnate for another decade. Nor can it be made when job loss stands a high chance of pitching a family into poverty. The sense of precariousness felt by American workers must be reduced and the sense of opportunity increased. The best way to deal with job churn and meagre wage gains is economic growth, including strong export growth. In addition, for dislocated workers, targeted programmes are needed – whether the cause is trade, technology or plain bad luck. The broad goal should be enhanced labour mobility instead of defence of jobs that have become uncompetitive, advance notice requirements and severance pay, unemployment benefits combined with training requirements, lifetime learning programmes for adults and fully portable health insurance (Hufbauer and Suominen 2010).[6] The United States must not become a European social democracy where *not* working can pay better than a nine-to-five job. But the future of the American trade agenda will remain dim if labour policy remains frozen in the model of 1990. Bold and comprehensive measures can also sidestep the catch-22 created by the label of 'trade adjustment assistance'; a term that only cements public perceptions that trade threatens American living standards.

Making the United States a Better Place for Business

Another key non-trade area to address is taxation of multinationals (Hufbauer and Moran 2010). The Obama Administration has repeatedly called for taxes on companies that 'ship US jobs abroad'. The administration fails to acknowledge that outbound firms consistently export more from the United States than do home firms. The plants of US multinationals are the most productive in the United States, most technology-intensive and pay the highest wages. If US tax policy is changed so as to hinder outward investment by US firms, US export performance will be weaker, not stronger. The best policy for American workers is to make the United States an even better place for multinationals to do business. Not only should ideas to tax the foreign income of US-based multinationals be tossed in the trash basket,

[6] Whether the new healthcare law fosters worker mobility remains to be seen. Programmes with financial incentives for work are to be applauded, such as the US Earned Income Tax Credit, the US wage insurance programme (a component of TAA), or the UK Working Families Tax Credit, or a targeted wage subsidy paid to employers. These programmes are far superior to unemployment benefits with no link to new jobs.

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but also the combined federal and state corporate tax rate should be slashed from 39 per cent, the second-highest in the OECD (after Japan), down to 25 per cent, the OECD norm.

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