



## **Reasserting America's Leadership of the Global Trade System**

In the years after World War II, the United States took the lead role in building a strong, multilateral trading system. This regime, then as now, was based on the concept that open markets for global trade would not only be good for each nation's commerce and industry, but also foster peace through prosperity.

For more than seven decades, that system and its underlying principles have stood the test of time, even as a growing chorus of protectionist critics now threatens to drastically undermine the global trade regime. The reality is, Americans support free trade. In 2018, 82% of Americans agreed that trade is good for the US economy, 85% said that trade is good for consumers, and 67% saw trade as being good for creating jobs.<sup>1</sup> One in five jobs – 40 million – depends on trade, and these jobs are higher paying.

There is no doubt the global economy has changed, and the governance of trade needs to change along with it – to address the rise of developing countries, the impact of technology, and the shift to trade in services and data. There is also no doubt that to extend the benefits of free and open markets, we also need to address the dislocations trade can cause and position the proud workforce of America to take advantage of a globally connected economy in a modern age.

Two Paths America believes we need to remain connected to the world and that our global economic policy is a critical element of our foreign policy. Our leadership is needed. We believe if the United States continues to retreat, we only open up opportunities for others to shape the future standards and rules of the game by which countries cooperate and compete in the global economy. Our nation's political, business and academic leadership must work together to find new, 21<sup>st</sup> century ways to think about

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<sup>1</sup> Chicago Council, <https://www.thechicagocouncil.org/press-release/poll-americans-view-trade-all-time-high>

global trade relationships, including ways for all nations to benefit from trade while maintaining respect for the rule of law, human rights and democratic institutions.

## **TRADE DIPLOMACY**

In 1947, emerging from two decades of economic depression and world war, 23 nations signed a framework of rules for an international trade regime. The General Agreement on Tariffs and Trade (GATT) reflected the founding nations' desire to reduce trade barriers and better interconnect national markets, not only for the benefit of businesses and production, but to foster peace through shared prosperity.

In 1995, the World Trade Organization (WTO) supported by an initial 128 member nations modernized the GATT, further reducing trade barriers and extending provisions to address tariffs as well as non-tariff barriers, such as market access and the treatment of intellectual property. Importantly, it also provided an institutional body to assist states in remedying trade disagreements. This was the crown jewel of the rules-based global trading regime: a dispute-settlement mechanism that preserves trade relationships between international competitors.

The WTO anchors the global economy. It provides for predictability and stability in goods, services and intellectual property by preventing discrimination, drafting the rules of international trade, and offering a forum in which countries can enforce their rights.

Throughout the post-World War era, the United States has supported a global trade regime as a key tenet of its national identity and interests. This was done with a special understanding of the system's importance for maintaining respect for the rule of law, human rights and other democratic institutions in the interaction of nations. These are ideals closely valued by Americans, a fact that makes so alarming the voices that call for destruction of a system that our nation's farmers, ranchers and businesses rely upon, and need more than ever, to connect to the global economy through a rules-based system.

But even with widespread support for global trade, there has been a growing apprehension among Americans that the system has become less than perfect and may no longer be suited to the fast-changing realities of world commerce, technology and geopolitics. Labor disruptions, the rise of China and privacy regulations are among the challenges that complicate the institutions of global trade.

The answer, however, is not to pull back and destroy, but to reform. The structure of trade may be changing, but the need for cooperation, under a rules-based system and an empowered global institution, has not. We are and will remain connected to the global economy, and to the economies of our allies. We seek our own prosperity as well as that of other nations. We need to reform and strengthen the institutions we helped to build to facilitate cooperation and encourage mutually beneficial growth, not destroy them.

### **THE EVOLVING NATURE OF TRADE**

From the creation of GATT to the evolution of the WTO and development of numerous preferential trade agreements (PTAs) linking various trading partners, global trade relationships have grown immensely, not only in numbers but also in complexity and controversy. This has come at a time when manufacturing and production industries in the old “first world” nations have taken significant hits due to the widespread growth of automation at home and the availability of cheaper labor overseas. Many such factors have stressed trade agreements, but the challenges to the post-war global trade regime is twofold: the failure to properly accommodate China in the global system and the uneven distribution within nations of the gains produced from trade. Solving these two issues needs to recognize the interconnected nature of trade and how the trading environment has evolved. It is not just about resolving trade issues on a bilateral basis, ensuring that one country buys more goods from another, or using the blunt instrument of tariffs.

Global value chains have become more complex. While it was once easier to talk about domestic versus foreign industries, this is increasingly difficult to do. The average American car, for example, crosses the U.S.-Canada border seven times in the process of being built. To place tariffs on Canadian cars thus hurts U.S. companies. This story plays

out in industries ranging from jeans to solar panels and everything in between. U.S. firms buy from, and sell to, a web of companies from all corners of the globe. Given these global value chains, protecting “us” from “them” is not so easy, involving an understanding of a complex web of relationships. This is how our industries have become globally connected.

Moreover, our economy, like other rich countries, has evolved to a services economy as well as housing many proud industries. More than 80% of Americans earn a paycheck in a service sector, doing things as varied as providing haircuts and tourism to drawing up architectural plans. Since 1995, more of these services have become open to international trade. That’s because the World Trade Organization (WTO) started the process of opening certain services, most of which had long been closed to competition. In the case of China, U.S. exports of services have increased by nearly 800% since 2001 when Beijing opened its markets to American services. We need to focus on this and ensure that modern trade deals allow for equal access and the opening of trade to American services.

Trade itself, however, has become politicized, making it more difficult than ever to properly diagnose the problem and effectively form policy solutions. Politically, there is a zero-sum perception in the policy environment on the perceived winners and losers of trade. Some political leaders have played on those perceptions, while not enough of us have effectively communicated the benefits of global trade to the American people and focused on how to ensure the benefits of trade are felt more widely. The result is a fractured political environment in which international trade agreements are disparaged, dishonored and – to America’s harm – abandoned, without recognizing the vehicle they can be to connecting American manufacturers and service providers access to the global economy under rules we’ve negotiated.

Failing to heal the divide between those who are perceived to have gained or lost from international trade, has, unfortunately, damaged the strong consensus our nation once shared that being connected to the rest of the world, and working with our allies to adapt

a global trading system, can bring prosperity to communities, our country, and the world itself. Developing policies to address social or economic dislocation resulting from trade is our imperative, not rejecting global trade.

### **WHERE DO WE NEED TO GO?**

The United States must understand that it is operating within a new era of globalization (often called “Globalization 2.0”). The rapid transformation of supply chains, including the reduction in manufacturing and rise of automation, are challenges that our political leadership must address to ensure a positive and productive domestic workforce. There’s no question that our national education needs vast improvement so that youth are prepared with the skills and motivation to enter a changing workforce. Stressing the importance of science, math, engineering and technology, the United States must renovate its education system to better compete in a global marketplace. There is no better place – and no greater need – for a technology and innovation renaissance than in the United States.

We must work with our partners and allies to modernize the global trade regime. Instead of using tariffs on foreign imports by claiming national security concerns, the United States should engage in dialogue with our trading partners and adversaries alike to diplomatically resolve outstanding issues. Rather than punishing industry workers and consumers by imposing new or increased tariffs, government negotiators must cautiously resolve these issues.

As the Trump administration negotiates trade agreements with essential partners, including the United Kingdom, Japan and the European Union, it must focus on gaining preferential market access. In addition, instead of bludgeoning allies and partners with our international trade concerns, government representatives should focus on areas of common ground within trade negotiations and tactics, including how best to protect intellectual property rights across the global economy so that American inventors and artists can be rewarded for their creativity. They can also work together to bring pressure on China over market access and intellectual property issues.

Instead of focusing solely on domestic manufacturing, the United States must focus on a new era's emerging trade and investment issues, particularly relating to protection of intellectual property and enhancing a cybersecurity partnership between the public and private sectors.

We must also recognize that the US and China will remain fundamental sources of growth in the 21<sup>st</sup> century global economy, and as such, must define, and re-define, their economic relationship. It would be naïve to think we could solve the structural issues between the two economies, ours a free-market democracy, and theirs a state-managed economy, in the scope of one agreement, negotiated over a few months time. The US economic relationship with China, one of strategic competition, will have to be managed closely – with room for cooperation, but also heightened recognition of the rising technological underpinnings of both our strengths and our vulnerabilities. New FIRRMA legislation is a first step in this direction, but to stay current in an environment defined by fast-paced technological change, this will have to be monitored closely and updated on a dynamic basis.

We must also put the economic relationship with our neighbors, Canada and Mexico, on sound footing. Antagonizing our most important trading relationships was politically short-sighted and economically unnecessary. Replacing NAFTA, the US-Mexico-Canada (USMCA) trade agreement will come before Congress in 2019. While the new agreement updates elements of NAFTA (incorporating much of what had been negotiated in the original Trans Pacific Partnership, a modern, 21<sup>st</sup> century trade agreement connecting the US to 11 other countries from Latin America to Asia but rejected by the Trump Administration), these updates could have been negotiated in an environment of mutual respect with an eye toward shared prosperity, not threats, ultimatums, and an “I win- you lose” approach.

## **WHAT'S THE BOTTOM LINE?**

Two Paths America believes our nation needs a new and compelling vision for the global trade regime it wishes to operate within and hopes to prosper from. To achieve that vision and overcome a multitude of fast-changing global challenges – including some as yet unforeseen – we cannot undermine our allies and trading partners. Rather, we must work with them to establish the rules of the game that embody our standards and our values.

In addition to our keeping true to our commitments abroad, we need to review our priorities at home as well. Leaders must help create an environment in which business can prosper and successfully complete in a changing global marketplace. Our nation's young men and women must be given an education that will allow them to thrive in a more competitive, interconnected world.

By strengthening our domestic workforce and business environment, while improving our international trade partnerships and practices, the United States can help lead the global community into a more intertwined global market that can raise the standard of living for all. We do not want respect for American power to depend on our military might alone, but on our economic power to facilitate global growth, engender creativity, and foster exchange.

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