

Time to Reset US Trade Policy for the 21st Century



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December 6, 2012 – Why are we having a jobless recovery? One reason is that the manufacturing sector in the United States -- at least as relates to employment -- has been denuded to such an extent that even if consumer spending starts to move up, more manufacturing jobs are not created. The things that are being made and sold to our more optimistic consumers are not being made here.

What is the problem? A big part of it is that the trade policy we pursue in this country is left over from the 20th century. We are utilizing the same policy and fighting the same battles we did in 1985. But it's not 1985 anymore and the world has changed dramatically. We need a trade policy for the 21st century.

In the aftermath of WWII, as the U.S. became a dominant world power and the greatest generation came home from the war, a number of basic tenets informed our trade policy. One, we needed a centralized system, based in Geneva and then called the GATT (General Agreement on Tariffs and Trade), which would promulgate the benefits of an open trade economic system. One of the main reasons for this plan was to fight back communism and to make sure development occurred on a capitalist basis. The second tenet was that the United States would be an exemplar of this system, and would encourage capitalist development by opening our market to all foreign producers.

The United States succeeded wonderfully in achieving these objectives. At our urging, we grew the GATT into a sort of world government -- now called the World Trade Organization, (WTO) - that has the power to change our internal economic regulations as a result of the mandatory dispute settlement system that is a part of it. We also have a wonderfully open market -- and the endemic large trade deficit that goes with it. But perhaps it was worth it. For a short time, around the year 2000, we were truly on top of the world. We won.

But we are no longer in a post-WWII world, we are no longer fighting Communism (at least of the traditional kind), and capitalist economic development in the developing world is no longer a main foreign policy goal. The world has changed, but our trade policy has not.

One part of the post-WWII policy we pursued was based on the theory that every country would more or less act by the same basic set of principles. They would have a market economy, or at least would be moving toward that, would believe in the rule of law, would welcome foreign goods when they were better than what they could produce domestically, and if they occasionally subsidized, it would be the exception, not the rule.

Unfortunately, the only country in the world that the prior paragraph describes is our own. Many other countries in the world have changed the basic rules, engage regularly in adversarial trade, and have a mercantilist trade policy. We maintain our post-WWII trade idealism and lose regularly as a result. It's as if our foreign policy were still based on fighting the Vietnam War and breaking down the Berlin Wall.

Wake up, America. It's the 21st century. And when we wake up, what will we see? A trade world populated by very large countries building up manufacturing through the use of enormous subsidies, continuing very low wages and exploitation of workers throughout the world, the model of state-owned-enterprises (SOEs) becoming the center of economies in many countries, and being totally financed by governments, undervalued currency as a daily tactic to build up exports, and internet blockage to beat down commercial opportunities (among just some of the problems). In addition, we'll see that our trade deficit will be \$739 billion this year, an unsustainable number that is wearing away millions of U.S. jobs.

President Obama, as he puts together his second term agenda, needs to fundamentally recalibrate his trade policy. If you want to think about the issue in the economic/political terms currently thrown around in Washington, our trade policy is good for a few rich companies, but pretty bad for members of the middle class, particularly unemployed workers trying to find a job in manufacturing. It is doing nothing for those who are poor and trying to work their way up.

What do we need to do? Let's begin by recognizing that the world has changed since the 20th century and we need to have a trade policy that deals with the current world. Five key issues should be central to this.

- 1) We should negotiate enough free trade agreements, on terms that really work, so we can feel comfortable leaving the WTO if it continues to go well beyond its mandate and undercut U.S. trade remedy laws. The proposed U.S./EU Free Trade Agreement and the Trans-Pacific Partnership would be a good place to start.
- 2) We should immediately deal with currency undervaluation in all its forms, which has devastated U.S. manufacturing.
- 3) We need to have a sustained policy on dealing with state-owned enterprises which flood world markets with goods subsidized by government coffers.
- 4) We need a Secretary of Manufacturing who will speak up at the Cabinet level for policies that will promote our manufacturing sector. After all, we have a Secretary of Agriculture and a Secretary of Energy (and those sectors are both doing much better).
- 5) We need to consider using special international trade rules which allow us to impose tariffs when there is a major balance of payments problem, which currently exists with China on manufactured goods, given our sustained trade deficit with them at \$300 billion per year.

It's time to have a trade policy that fits the current age, not the last century.

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