

Reflections on the United States in the Trading System 2020

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The global trading system is at a critical juncture, and it is stumbling badly. Technology is dramatically altering the global economy, creating a world characterized more by functional geo-economics than political boundaries. Manufacturing, the services that support manufacturing, IT-driven management capabilities, and research & development have evolved into intricate and highly efficient global production networks. The pandemic, a distinct bump in the road, ultimately is speeding up connectivity processes long underway. And yet, at a time when more innovative rules supporting international trade are needed, the institutions that set the rules are under unprecedented attack.

The United States, which has for the past 75 years led the effort to create a comprehensive rules-based trading system, is suddenly its most ardent opponent. In particular, the U.S. Government (USG), controlled by a small team of trade advisors in the White House, leads the effort to fundamentally redirect, and possibly disable, the global trading system. The system is being pushed into a more nationalist structure built around self-serving nation-states, in which, to borrow from Machiavelli, the powerful do what they will, the weak suffer what they must.

The United States, despite warnings of decline, should remain the world's dominant economic and military power. Among the world's 20 largest economies, only Australia, Canada, and the United States will have growing populations of adults aged 20 to 49 throughout the next 50 years. Most countries will struggle with huge age-dependency burdens well before they are rich enough to manage them.

The United States enjoys a substantial lead in automation, with a vast head-start in artificial intelligence (AI) and the experts and entrepreneurial system necessary to lead commercialization. U.S. technology drives "industry 4.0, and the technology to replace sprawling global supply chains with vertically integrated factories at home. Advances in smart manufacturing will continue to lessen U.S. dependence on foreign labor and resources. Service industries, America's comparative advantage, will follow suit as AI takes over more tasks. A global flight to safety has sent investments flooding to the United States. Wall Street hit new highs, the housing market is strong, and the country's share of global FDI has risen to more than 32% in 2020, against a historic average of 21.7%.

As America becomes more self-sufficient, it might mutate into a "rogue superpower." The previous "American century" was built on a long-range vision of the U.S. pulling nations into rapid growth paths built on liberal democracy, vibrant free-market capitalism and open trade. Today, as Martin Beckley warns, we might be witnessing the dawn of an "illiberal American century."

Globalization, it is true, enjoys strong bipartisan support in the U.S. More than 80% of Democrats, 78% Republicans and 76% of independents viewing trade more as an

opportunity than a threat to growth. Support has been steadily increasing since 2012. Many think tariffs hurt more than they help.

Trade, however, is No. 18 on the list of American's concerns. Promoting democracy and human rights—core interests in spreading liberal democracy-- fall below that. Americans are more concerned about terrorist attacks, jobs, and illegal immigration, all of which have been inflamed in the current election. Depending on how that election goes, American leadership in a rules-based trading system may turn even further toward an aggressive economic 'realpolitik' ideology.

It is quite conceivable, Beckley warns, that the USG decides to abandon the multilateral trading system and focus "every tool in its coercive arsenal—tariffs, financial sanctions, visa restrictions, cyber-espionage, and drone strikes—to wring the best deal possible from both allies and adversaries." There would be no enduring partnerships based on common values—only immediate transactions. USG would judge other countries not by shared values or their willingness to help solve global problems or whether they were democracies or autocracies, but only by their ability to create American jobs or help shelter the U.S. homeland.

Progress in expanding a liberal order and rules-based trading system requires the United States to again subordinate its immediate self-interests to a higher purpose. The likelihood of this ranges between extremely unlikely (Trump) and possible over time (Biden).

Trump is not ideological. He is instinctual. But he has surrounded himself with people unsympathetic to leading a rules-based system or to universal rights as a motivator of U.S. policy. In his 2019 speech to the UN, Trump declared: "The future does not belong to globalists. The future belongs to patriots. The future belongs to sovereign and independent nations who protect their citizens, respect their neighbors, and honor the differences that make each country special and unique." This is music to the ears of illiberal nationalists.

Trump has insulted the leaders of America's closest friends. He treats Canada and Mexico as adversaries rather than partners. He regularly praises autocrats. The President threatened to leave NATO and questioned U.S. obligations to support European allies if attacked. He questions the value of U.S. alliances in ways not heard since the end of World War II. He seems to be seeking a world without alliances of shared values; ruled rather by transactional relations built on immediate cost-benefit calculus. As China grows, those cold calculations will tend to fall on the China side of the equation.

Joe Biden, while slamming Trump's "empty" agreement with China, is unlikely to shift gears rapidly. Relationship repair and deeper agreements generally can wait, he has said, until after "we have invested in Americans." Given October polling trends, it is worthwhile to consider in depth international trade under a Biden Administration.

Biden's long career as a foreign policy specialist suggests a globalist perspective. As a Democrat, however, he has supported standard Democratic skepticism about trade

liberalization: good in some ways but an undue threat to American jobs, wages and communities. Better to strongly enforce existing trade rules than negotiate further liberalization. His Presidential trade agenda suggests more of the same, with no enunciated goals for further liberalization, and, rather, a clear shift toward protection.

Biden's vision is encapsulated in his slogan "Supply America." He promises to "bring back critical supply chains to America to reduce dependence on foreign nations for the production of critical goods in a crisis." Biden promises "Buy American," with an additional \$400 in federal purchases of products made by American workers. Biden will require that companies receiving federal procurement contracts use taxpayer dollars to support American jobs, as well as standard Democratic ambitions to "pay at least \$15 per hour, provide paid leave, maintain fair overtime and scheduling practices, and guarantee a choice to join a union and bargain collectively." Biden is committed to ensuring that at least 23% of federal contracts get awarded to American small businesses.

Specifically, Biden commits to:

- Provide billions to clean vehicles and clean energy generation capacity.
- Federal purchasing of American steel, cement, concrete, building materials, and equipment; not only to rebuild infrastructure and retrofit buildings, but help domestic companies to lead in resilient, sustainable production for the future.
- Ensure sufficient emergency stockpiles by forward purchases of critical medical supplies and pharmaceuticals,
- Purchases in advanced industries like cutting-edge telecommunications and AI; and protecting American intellectual property and national security from threats "unaddressed by Trump."

To enforce *Buy American* provisions, Biden promises to tighten domestic content rules and reduce waivers. He will extend Buy America into new forms of government assistance, such as federally funded R&D to be used only for domestic production; extend Buy America to other forms of government assistance; require American steel, iron, and manufactured products for transportation projects. Biden will push 'modernization' of trade rules—notably the Government Procurement Agreement—to be compatible with his new Buy America goals. He supports the Jones Act, which mandates that only U.S.-flag vessels carry cargo between U.S. ports.

In short, in an existential moment for the international trading system, the United States will march down one of a two divergent paths. Both will violate basic principles of the WTO and both will reduce American leadership of the liberal, rules-based trading system; one substantially more than the other. It is hard to predict which one it will be. But it is absolutely clear that it will matter greatly for everyone, and for a long-time.