A Trade Policy for the Twenty-First Century

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The post–Cold War world order is over, and a new era of geoeconomic and tech competition is underway. Leveraging trade tools to assure the nation’s competitiveness on the global stage will be critical to U.S. foreign policy in the twenty-first century. In tandem with renewed competition, populism is now a defining feature of political landscapes at home and abroad. This shift has yielded efforts to formulate an equitable, worker-centered trade agenda. Policymakers will need to carefully balance today’s new geopolitical reality with domestic pressures to further prosperity and assure security.

Getting trade policy right has always been complicated. Macroeconomically, trade is a win-win situation: it produces more jobs and growth for all parties to an agreement. Microeconomically, however, trade produces winners and losers as some thrive in a more competitive environment and others flounder. The latter blame their problems on imports, and sometimes they are right. Trade creates gains but it does not always distribute them—that depends on tax and education policies, among others. Despite international trading rules against a wide range of unfair practices like dumping and subsidization, some countries cheat, and even when they are caught, relief is often too little, too late. More often, however, the real culprit is technological change and productivity improvement that domestic industry has trouble matching. Sorting out the actual problems and devising a policy of effective solutions has proved difficult and, in the past, led to significant policy debates. It appears the United States is once again at an inflection point where a growing number of experts are calling for major change.

Until recently, U.S. trade policy since World War II has had two pillars: promote free trade and improved market access and create and maintain rules and structures that support an open rules-based trading system. That policy has produced enormous benefits for U.S. exporters in various sectors. U.S. exports of manufactured goods reached nearly $1.4 trillion in 2019, and exports of services reached nearly $850 billion that year.¹ About 25 percent of U.S. farm products
by value are exported each year. However, recently, U.S. trade policy has led to complaints that benefits have accrued primarily to large companies and their executives, not to workers. The complaints have, in turn, led to calls for a “trade policy for workers” or a “trade policy for the middle class.” As with many new ideas, exactly what those terms mean remains to be fleshed out. At this juncture, they appear to mean enforcing existing rules rather than creating new ones, reallocating benefits away from corporations toward workers, bringing manufacturing back to the United States, avoiding market access concessions, and pursuing a variety of inclusivity and sustainability goals.

Implementing this more idealistic policy faces three challenges. First, it will encounter resistance from trading partners still comfortable with a more traditional approach that focuses on tangible benefits: increasing market access, reducing trade barriers, and refining the rules. Second, world events—notably the Russian invasion of Ukraine and an increasingly aggressive China in the Indo-Pacific—have conflated national security considerations with trade policy. Finally, shortages caused by the Covid-19 pandemic, coupled with security concerns, have refocused policy attention on supply chain resilience rather than on production efficiency.

Constructing a coherent policy that addresses those challenges has been made more complicated as some developing countries and authoritarian states push alternative narratives that challenge current rules and institutions and exacerbate the divide between developed and developing nations. Reconciling these differences may be impossible in the short term, but if the United States is to maintain its position of global leadership and grow its economy, it needs to try. With 95 percent of the world’s consumers outside U.S. borders, promoting trade is essential for future growth. Trade’s ability to lower costs and increase efficiency is also essential to meeting other global challenges like climate change. The following suggestions may help move policy forward.

The United States should recognize that while the old Washington Consensus on free market economics is fading, a new consensus has yet to develop, and not all countries are ready for a more idealistic approach. Trade negotiations remain grounded in the search for tangible benefits. Countries are interested in what is in it for them, and the United States is no exception. A successful policy is one that provides opportunities for mutual gain.

1. The United States can make progress on its inclusivity and sustainability goals only if it is prepared to accommodate the goals of other countries, primarily developing ones, which will require rethinking on the part of current stakeholders.

2. Companies must recognize that in a more transparent world increasingly sensitive to long-standing inequities, trade policy should include support for worker rights, human rights, environmental sustainability, and other social goals. Governments will require more attention to these issues, and consumers will demand it.

3. Trade skeptics must recognize that trade is a two-way street and that accomplishing their goals will require U.S. market access concessions. Moreover, they must acknowledge that trade is as much about exports and economic gains as it is about imports and potential losses.

4. Other countries must recognize that increased access to developed country markets in Europe and the United States is not a right but an opportunity that requires reciprocal concessions on their part. There is no free lunch—for them or for us.

5. The best approach is to work within a rules-based framework that imposes discipline on miscreants. The United States has long been a strong supporter of the World Trade Organization and should continue to support the institution, its rules, and its dispute settlement process. At the same time, centrifugal forces in the trading system are making multilateral agreements much more difficult to reach. The United States should not give up on multilateralism but should also pursue plurilateral and
bilateral agreements with countries willing to make more ambitious commitments.

While trade accelerates economic change, policy change comes more slowly as nations cling to past practices and resist politically risky innovations. The most successful policy will avoid making the perfect the enemy of the good and will attempt to accommodate other nations’ political and economic imperatives while simultaneously pushing them forward on ours.

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