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Affirming American Leadership:

A Call to Action

A Statement of the CSIS Trade Commission on Affirming American Leadership

The United States is the preeminent, but no longer dominant, global economic actor. It is challenged by countries with economic systems antithetical to transparent, market-based outcomes. It is seen in Asia, Europe, and elsewhere as a declining power. Serious lapses in U.S. policymaking over decades have exacerbated economic inequities at home and doubts abroad. Failure to robustly embrace reform in workforce development, innovation, and trade has enhanced U.S. economic vulnerability and diminished the country's stature and influence. It is past time for serious action to address these issues.

As history moves toward a pivot point, there is an urgent need for revitalization and affirmation of American leadership—a responsibility we cannot avoid, nor should we.

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CSIS TRADE COMMISSION
Affirming American Leadership

An Order under Pressure

The global institutions built on the back of the postwar U.S. alliance structure, and the rules and norms they support, were constructed in support of U.S. and global economic growth in the twentieth century, not the twenty-first. At the time, the United States was the dominant economic and geopolitical power, and the institutions it designed with its allies served America's national interests. Since then, as foreign competitors have gained strength and as the U.S. share of global markets has declined, confidence in the international order has eroded within the United States, and many Americans feel that the benefits of the existing system are not as widely shared as they once were. Mishandled responses to the global financial crisis of 2008-2009 and the current Covid-19 health pandemic have raised questions about U.S. governance capacity. Meanwhile, rising countries are credibly challenging U.S. dominance, at a time when Washington has pulled back from global leadership. As a result of these and other forces, American leadership has been seriously eroded. Allies are beginning to question America's commitment to the institutions and rules that it enlisted them to craft and uphold, and adversaries are seeking to take advantage of these doubts.

In particular, the international economic order has been challenged by the rise of China. The direction set by the country's 2001 entrance into the World Trade Organization (WTO), which boosted China's initial convergence with Western economic norms, has now been reversed. Beijing's retreat from market economics began in 2006-2007, when reform and opening stalled. From China's perspective, the global recession exposed the vulnerabilities of the market system. The reversion to a state-led economic model has vastly intensified under Xi Jinping. Sweeping, centrally driven industrial policy plans such as Made in China 2025 and China Standards 2035, as well as persistent cyber theft of intellectual property, forced technology transfer, massive subsidization of industrial and technology sectors, and the resurgence of state-owned enterprises and state-led development, have undermined the global economic system from which China has enormously benefited. Many of Beijing's policies are incompatible with existing international norms of fairness and mutuality. China's scale and weight in the global economy magnify the adverse impacts of its policies.

At home, the global financial crisis of 2008-2009 laid bare U.S. governance inadequacies and increasing income and wealth inequality, both of which have been exposed and accentuated by Covid-19. Even before the pandemic devastated the U.S. labor market, wage growth had become more unequal and had not kept up with productivity gains or the cost of living across America for decades. Incomes remain stratified across race and gender. Educational outcomes have deteriorated, and the cost of higher education has skyrocketed. Social security threatens to be insolvent by the time many middle-aged and virtually all younger Americans retire. The richest 1 percent of Americans hold more wealth than the bottom 90 percent.

The economy is already beginning to feel the force of demographic shifts: an aging workforce, a larger share of people entering the workforce from minority groups historically underserved and undervalued in the current education system, and an overall shortage of workers due to restrictive immigration policies. Women and people of color are now bearing the brunt of the health and economic consequences of the pandemic. Meanwhile, many other major economies are producing a more competitive workforce and closing the technology innovation gap with the United States. Washington for too long has failed to put in place policies to mitigate these disruptions and inequities. Policymakers need to act now to support American workers and prepare Americans for the economy of 2030.

While other factors, such as technological change and domestic policies, are widely accepted as bearing heavily on inequality and disruptions in the U.S. workplace, the public and politicians alike also cast blame on trade. To be fair, the international order, and the WTO in particular, have proven incapable of constraining non-market behavior or modernizing to fit the twenty-first-century economy. Mired in division and inflexibility, the WTO has failed to deliver multilateral agreements to further open markets or upgrade its rulebook to better combat new market distortions by leading countries. At home, substantial imports of Chinese products associated with the country's WTO entry, together with the loss of U.S. manufacturing jobs over several decades, have encouraged a view that global trade has been unfair to the United States and that unilateral redress is necessary.

America's retreat from leading the negotiation of the next generation of comprehensive trade agreements, its disabling of the WTO's binding dispute-settlement system, and its reversion to unilateral trade action often at odds with global rules are the most telling manifestations of America's shift away from global leadership, governance, and coalition building in trade. The result is a world in which U.S. leadership in the global economy is threatened from both within and without, and the rules-based trading system is defined by disorder.

American Trade Leadership for the Twenty-first Century

For the United States to maintain its position as the global champion and chief influencer of the international economic environment and to continue to reap its benefits, it must take bold steps in three critical areas. Domestically, the United States will have to quickly strengthen two economic pillars that undergird its economy and its ability to lead abroad: an agile and better-prepared workforce and enhanced capacity for innovation. Abroad, the United States should embrace and build support for a more flexible, nimble, balanced, and responsive international system, with effective institutions and rule-of-law and market-based principles at its core. Only a comprehensive approach at home and abroad will rebuild sustained domestic political support for an ambitious international agenda.

1. Bolstering the American Workforce

The United States must address three primary workforce challenges: a structural change in the nature of work; the continued aging and diversification of the U.S. workforce, coupled with a worker shortage caused by restrictive immigration policies; and a more competitive global workforce. These challenges compel policymakers to provide American workers the opportunity to remain agile and sought after, to earn higher wages regardless of occupation, and to make the United States more competitive globally. To achieve these goals, government must join hands with companies and educational institutions to ensure that every American has the means to acquire relevant skills throughout their career.

CORE RECOMMENDATIONS

a. **Support dislocated workers:** The Trade Adjustment Assistance (TAA) and Unemployment Insurance (UI) programs should be combined to cover individuals who have lost their jobs due to trade, technology, or any other reason outside their control. A reformed program should also cover a broader range of workers and include provisions from the TAA program that provide more comprehensive benefits, including a health care tax credit, wage insurance, mobility stipend, and training. This would be part of a broader effort to review the range of government training programs to determine what sort of reforms, updates, and consolidation might be called for, as well as an effort to work with states and the private sector to determine how best to construct a modern system for supporting workers, including the potential for portable benefits.

b. **Promote lifelong learning:** Government at all levels should adopt policies and work with employers, educators, and training institutions to incentivize market-driven, affordable lifelong learning for workers. A lifelong-learning tax credit should be made available to companies that invest in skilling-up their workforce. Lifelong-learning accounts, similar to personal health savings accounts, with tax benefits and employee and government matching, should be made available for individual workers to invest in. These should provide for on-the-job retraining, registered and industry-recognized apprenticeships, certification by technical institutes and community colleges, and other re-skilling opportunities. This is particularly important for the countless workers whose jobs may have disappeared permanently in the post-Covid economy, in which preexisting trends toward automation, robotics, and artificial intelligence (AI) are likely to be accentuated.

c. **Sustain immigration:** Numerical caps, country caps, and duration caps on H-1B visas should be removed. Instead, work visas should be issued on a demand-driven basis, in a way that encourages high-skilled talent to come to the United States, as well as provided to immigrants who start successful businesses in the United States. Optional Practical Training (OPT) authorization for science, technology, engineering, and mathematics (STEM) graduates should be extended to five years and a path for further extensions should be established. Foreign students who have obtained an advanced degree in the United States should not be limited in the time they are permitted to work in the United States; to the contrary, they should be offered green cards.

d. **As an immediate step to address the workforce disruption caused by the Covid-19 pandemic, Congress should enact a substantial "GI Bill for Jobs" that funds upskilling for frontline workers and trains others for work in the "caring economy."**

2. Sharpening America's Innovative Edge

A dynamic private sector, a skilled workforce, leading universities, and federal support for research and development (R&D), reinforced by an open trade and investment environment, have kept America at the innovation frontier for decades, but this lead is under threat. As competitors close the technology gap, the United States will need to resurrect and modernize policies that propelled it to technological leadership over the past 100 years and reinvigorate the "triangular alliance" among government, industry, and academia. To sharpen the U.S. innovation edge and position the country for long-term leadership, policymakers should adopt a national strategy with three core elements: investing in innovation, protecting critical technologies, and championing data governance.

CORE RECOMMENDATIONS

a. **Invest in innovation:** Reaffirming U.S. leadership begins with reinvesting in the innovation base: increasing federal funding for R&D to a minimum of 1 percent of GDP, strengthening and diversifying a world-class talent pipeline, and encouraging business investment. To supplement broad investments, policymakers should leverage government purchasing power to create markets for, and catalyze investment in, early-stage technologies. While doing so, Washington should urge and support domestic companies' and experts' active participation in international standard-setting processes to secure outcomes conducive to U.S. interests.

b. **Protect critical technologies:** Openness to trade, investment, and research supports U.S. technological leadership, yet some restrictions on the transfer of sensitive technologies are essential to protect national security. Policymakers should reaffirm the benefits of open investment, trade, and research and acknowledge that not every element of economic or technological disruption raises a national security concern. Rather, principles of risk management can be used to identify, refine, and calibrate the nature of the threat and any remedial action indicated. Through an interagency process, policymakers should conduct risk-mitigation exercises based on end-users and likely applications to implement precise controls on critical technologies. Policymakers should continue to deepen multilateral cooperation, including by establishing an Allied Technology Controls group that would coordinate various mechanisms for managing technology transfer policy.

c. **Champion data governance:** Despite the role of data in driving future economic growth, there have been no successful international efforts to set rules directing its collection, processing, storage, and use. In the vacuum, countries and economic blocs have built their own regimes, which create overlapping, conflicting systems. The United States should take a leadership role in creating a more a cohesive framework of rules, standards, and norms for the digital space. To do so, the United States must articulate a positive vision for data governance, beginning with national privacy legislation. At the same time, the United States should work with likeminded countries—notably in the Asia-Pacific region—to promote a shared approach to digital rules.

3. Modernizing the International Trade System

If it is to protect and extend its global economic interests, remain competitive, and strengthen the global commons, the United States must lead the transition of the international trading system to one that is more agile, modern, balanced, and responsive. That will require us to lead by example, by championing the global rules-based trade order and operating within its bounds. Market-based economics should be the foundation of global trade architecture, and Washington should take the lead in defending that architecture from those who would undermine it: governments pursuing state-led mercantilism, non-market policies, or other opaque arrangements. While a number of trade-related initiatives require attention, including a critical array of bilateral and plurilateral agreements, of particular urgency given the current paralysis in the WTO is action in the three areas below.

CORE RECOMMENDATIONS

a. **Convene a new trade compact:** A new framework parallel to the WTO is needed to ensure that trade rules keep apace with changes in the global economy. The United States should convene a group of advanced market economies—countries committed to principles of reciprocity, transparency, market-driven outcomes, and rule of law—to set a new agenda for developing trade rules suited to the twenty-first-century economy. Initial areas of focus for new rulemaking would include the digital economy, cross-border investment, and state intervention in the economy, as well as stronger rules against trade-distorting and unfair activity. Advancing such an agenda among compact members could then provide a path for the rest of the WTO membership to follow when ready and might encourage other WTO-led negotiations on rules or on sectoral trade liberalization.

b. **Lead efforts to reform the WTO:** The United States should recalibrate its efforts at the WTO toward achieving realistic reform objectives that can garner necessary support. The WTO continues to play a fundamental role in setting baseline rules for global trade, settling disputes, and creating transparency in the global trade system. The United States has laid out its critique of deficiencies across WTO pillars, and now the United States should build a reform coalition to negotiate improvements. These should include reforming the outdated system of special and differential treatment for developing countries, improving transparency, improving the dispute settlement process, and facilitating multilateral negotiations. These efforts would run in parallel with those of the new trade compact discussed above, which is aimed at more rapidly modernizing the international regime and reinforcing the role of the market—not the state—in global trade.

c. **Update domestic trade laws:** Given the outdated nature of the WTO rulebook and the time it will take to update those rules through the new trade compact and the WTO, the United States should update its domestic trade toolbox so it is better equipped to deal with unfair trade practices not adequately addressed by WTO rules. The United States must be in a position to provide more rapid, targeted, and effective relief to Americans harmed by unfair trade practices. In particular, it should speed up the process for determining if relief is warranted and crack down on efforts to circumvent U.S. laws, building off more recent domestic legislative efforts. Failure to do so will leave sensitive industries vulnerable to unfair trade practices. Domestic actions to address unfair trade practices—consistently applied in a rules-based, transparent, and targeted way, with due process and in line with the rules of the trading system—can help strengthen that system even if the current WTO rulebook is inadequate.

Our Purpose

For 75 years, the United States has wielded unmatched economic strength, partly a function of its centrality in global trade based on rules conducive to its own and global growth. In the process, it has worked to build an international order that has facilitated economic exchange among nations and created a more prosperous world. We dismiss at our peril the crucial importance of that order to prosperity and, in turn, peace. Our challenge today is to adapt this system to changing economic realities and twenty-first-century challenges, and to continue in the tradition of alliance building and partnerships to renew and revitalize this global economic engine.

The objective of the CSIS Trade Commission on Affirming American Leadership is to identify and recommend urgently needed actions to strengthen the U.S. economy and ensure an external environment conducive to U.S. and global growth. Given intensifying competition and accelerating economic change, policies to reinforce the pillars of American economic leadership—a competitive workforce, a sustained innovative edge, and leadership of a revitalized global rules-based order—are critical. Through that mission, the commission is seeking to chart an urgent course of action. If the United States is to thrive, it must lead at home and abroad.

There is no alternative, and the time for action is now.

About the CSIS Trade Commission on Affirming American Leadership

The CSIS Commission on Affirming American Leadership was created in the summer of 2019 to develop a series of recommendations to cement U.S. global leadership in light of these twenty-first-century challenges. In a series of reports, the commission lays out recommendations for the U.S. workforce, U.S. innovation policy, and U.S. engagement in the international trading system.

Members of the commission are listed below. Each commissioner participated in an individual capacity, not on behalf of their organizations. Members of the commission do not necessarily endorse each of the recommendations in this paper.

Commission Co-Chairs

Ambassador Charlene Barshefsky, *Senior International Partner at WilmerHale; former USTR, 1997-2001*

Senator William E. Brock, *former USTR from 1981-1985; former Secretary of Labor from 1985-1987; U.S. Senator from Tennessee, 1971-1977; CSIS Counselor and Trustee*

Mr. Frederick W. Smith, *Chairman and CEO of FedEx Corporation; CSIS Trustee*

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Dr. Byron Auguste, *CEO and Co-Founder, Opportunity@Work*

Mr. Ajay Banga, *CEO of Mastercard*

Dr. Craig Barrett, *former Chairman and CEO of Intel Corporation, 1998-2009*

Mr. Gary J. Baumgartner, *Chairman of GJB Inc.; CSIS International Councillor*

Mr. Joshua Bolten, *President and CEO of the Business Roundtable; former White House Chief of Staff, 2006-2009*

Ms. Joyce Chang, *Chair of Global Research, J.P. Morgan*

Mr. David Cohen, *Partner at WilmerHale; former Deputy Director of the CIA, 2015-2017*

Mr. Vincent Mearl (Zippy) Duvall, *President of the American Farm Bureau Federation*

Mr. Evan G. Greenberg, *Chairman and CEO, Chubb*

Ambassador Carla Hills, *CEO of Hills & Co.; former USTR, 1989-1993; former Secretary of Housing & Urban Development, 1975-1977; CSIS Trustee*

Dr. Richard Levin, *former President of Yale University, 1993-2013*

Mr. W. James McNerney, Jr, *Senior Advisor with Clayton, Dubilier & Rice (2016-); former Chairman and CEO of The Boeing Company (2005-2015); former Chairman and CEO (3M (2000-2005) and former Chairman of the President's Export Council (2010-2014); CSIS Trustee*

Mr. Henry H. McVey, *Partner and Head of Global Macro & Asset Allocation, CIO of KKR Balance Sheet, KKR*

Mr. Michael J. Rogers, *former U.S. Representative (MI-08), 2001-2015; Chairman of the Permanent Select Committee on Intelligence, 2011-2015*

Ms. Kavita Shukla, *Founder and CEO of the FRESHGLOW Co.*

Mr. Jay Timmons, *President and CEO of the National Association of Manufacturers*

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For more information, please visit csis.org/tradecommission

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