

22-17 Have Trade Agreements Been Bad for America?

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INTRODUCTION

A false narrative has gone mainstream in America. It claims that trade agreements the United States entered into over the last 40 years, perhaps for nearly a century, were a mistake.

There is no nuance to this narrative. “I have visited the laid-off factory workers and communities crushed by our horrible and unfair trade deals,” said Donald Trump when he accepted the Republican nomination for president in July 2016.¹ On his first full day in office, he canceled the last trade agreement the United States had signed—the Trans-Pacific Partnership (TPP). Six years later, US Trade Representative Katherine Tai targeted other free trade agreements. On October 7, 2022, she claimed that they impose “significant costs: concentration of wealth, fragile supply chains, deindustrialization, offshoring, and the decimation of manufacturing communities.”² If she saw benefits from trade agreements—or trade itself for that matter—she did not cite them.

This anti-trade-agreement sentiment did not end after Trump left office. The Biden administration has considered no new trade agreements and even allowed the congressional mandate for trade negotiations to expire.

Before Trump and Biden, no administration took the position that the body of prior trade agreements entered into by the United States primarily caused harm to the United States. Today, the people in charge of US trade policy evidently believe that the liberal world order created by trade agreements under American leadership resulted in a new evil—globalization. Even a prominent columnist in the

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- 1 “Full Text: Donald Trump 2016 RNC Draft Speech Transcript,” Politico, July 21, 2016, <https://www.politico.com/story/2016/07/full-transcript-donald-trump-nomination-acceptance-speech-at-rnc-225974>.
- 2 Katherine Tai, “Remarks by Ambassador Katherine Tai at the Roosevelt Institute’s Progressive Industrial Policy Conference,” Office of the United States Trade Representative, October 7, 2022, <https://ustr.gov/about-us/policy-offices/press-office/speeches-and-remarks/2022/october/remarks-ambassador-katherine-tai-roosevelt-institutes-progressive-industrial-policy-conference>.

Financial Times, a bastion of the liberal international order, celebrates the demise of “neoliberalism” (and globalization) and a return to localization.³

Of course, these statements would have much less currency if they had absolutely no factual basis. Relatively open markets bring international competition, and in all competitions some players come out ahead and some behind; in extreme cases, the losers suffer serious harm. Critics view the quest for efficiency—a motivating force in a market-driven world economy—as cold and inhuman. Just look around, they say. Gross inequality in income and wealth abounds. Factories are staffed by far fewer workers than they used to be. The share of manufacturing employment has plummeted. Communities surrounding closed plants have declined and, in some cases, fallen into despair. It is fair to ask whether trade agreements, designed to open markets further, were to blame for any of these problems.

The supposed benefits of globalization have also been questioned. In 2020, supply chains that were thought to have been dependable failed, disrupted by the COVID-19 pandemic and the measures governments took to contain it. Critics ask, “Did a more fully integrated world economy that American leaders worked for generations to construct result on balance in a negative outcome?”

It will not surprise readers that we—three senior fellows at the Peterson Institute for International Economics—take issue with this Hobbesian view. We do not think that 13 American presidents, from Franklin Roosevelt to Barack Obama, got it wrong, or that their trade agreements program should now be shelved. As a Senator, Joseph R. Biden, Jr. voted for approval of the North American Free Trade Agreement (NAFTA), for approval of the creation of the World Trade Organization, and for permanent normal trade relations for China. These decisions were correct. There were, however, shortcomings in implementation. Some mistakes were made that should not have been made, and some people were unquestionably hurt. On balance, we believe the trade agreements that the United States entered into were strongly positive for America and that policy approaches taken need to be built on rather than abandoned.

WHAT DID POSTWAR TRADE AGREEMENTS ACHIEVE?

US trade policy began to be outward-looking in 1934, in the depths of the Great Depression, when President Roosevelt began the arduous task of dismantling US and foreign protectionist tariff walls, country by country, trade agreement by trade agreement. After World War II, the United States pressed for a global trading system that would be rules-based and accompanied by the steady progression of trade liberalization. The Soviet Union chose not to participate in the new global arrangement, the General Agreement on Tariffs and Trade (GATT); when the Communists took power in Beijing, China withdrew from the agreement.

Trade and national security were closely linked throughout the ensuing Cold War. The market-driven model was designed to rebuild Europe after World War II as a defense against the expansion of Soviet influence on the continent.

3 Rana Farooqar, “Made in America,” FT video, <https://www.ft.com/video/24b2fac1-128f-4c42-9df6-876309c7a15d>. See also “Free Trade Has Not Made Us Free,” *Financial Times*, October 17, 2022, <https://www.ft.com/content/c8d550f9-c7c1-4eef-a6cc-3db3af298f1b>, on income inequality as the outcome of globalization.

There were commercial costs to this policy as economic integration proceeded, with the United States losing a degree of market access in Europe for specific agricultural goods such as grains and poultry. But there were also major gains. An integrated Europe offered a far better market for American products than a disunited Europe would have (Felbermayr, Gröschl, and Heiland 2018).⁴

The market-driven model was propelled throughout most of the world by the persuasive power of the US and later European prosperity. Other countries pursued unilateral liberalization in their own interest, not just as a concession to dominant powers in the world trading system.

A half-century after the trading system was founded, the World Trade Organization (WTO) was born, incorporating the existing rules and adding new ones to meet changes in world trade, largely in the direction of opening markets. The WTO covered services trade and reduced trade distortions in agriculture for the first time. Today, its rules govern 98 percent of world trade, and the WTO has nearly universal membership, with 164 member countries and 24 others seeking to join.⁵ Continuous increase in membership is clear evidence of the WTO's success. A failing institution would not cause countries to expend the enormous effort needed to go through the accession process, which requires far-reaching domestic reforms.

This 75-year span of human history has seen unparalleled economic growth and extraordinary improvements in human well-being. Global GDP is 10 times what it was after World War II.⁶ Hundreds of millions of people have been lifted out of poverty.⁷ Human life expectancy has increased by 62 percent.⁸ Real US GDP is almost 10 times its 1947 level.⁹ As of 2016, the gains for the US economy from post-World War II liberalization have been quantified at \$2.1 trillion—10 percent of GDP that year (Hufbauer and Lu 2017).

These accomplishments could not have been achieved without global growth. Although many factors spurred it, the liberal international order created by US policy played a vitally important nurturing role. The order consisted of stable international monetary arrangements through the International Monetary Fund, development assistance through the World Bank and its regional associates, and an open rules-based trading system provided by the GATT and its successor, the WTO.

4 According to Felbermayr, Gröschl, and Heiland (2018), membership in the European Single Market boosted goods trade by 36 percent and services trade by as much as 82 percent.

5 The WTO often cites this figure. See, for example, WTO In Brief, https://www.wto.org/english/thewto_e/whatis_e/inbrief_e/inbr_e.htm. Even trade that flows with zero tariffs under free trade agreements is subject to WTO rules.

6 Inflation adjusted, world GDP was over \$100 trillion in 2015 versus being under \$10 trillion in 1950. "World GDP over the Last Two Millennia," Our World in Data, <https://ourworldindata.org/grapher/world-gdp-over-the-last-two-millennia> (accessed October 19, 2022).

7 Ana Revenga and Anabel Gonzalez, "Trade Has Been a Global Force for Less Poverty and Higher Incomes," World Bank blog, February 2, 2017, <https://blogs.worldbank.org/developmenttalk/trade-has-been-global-force-less-poverty-and-higher-incomes>.

8 "World Life Expectancy 1950–2022," Macrotrends, <https://www.macrotrends.net/countries/WLD/world/life-expectancy> (accessed October 19, 2022).

9 US Bureau of Economic Analysis, Real Gross Domestic Product [GDPC1], retrieved from FRED, Federal Reserve Bank of St. Louis, <https://fred.stlouisfed.org/series/GDPC1>, October 18, 2022.

The phenomenal success of US postwar policies is not a matter of theory. It is fact. The alternative—a relatively closed, state-dominated system—was tried, in the Soviet Union under Stalin and by Mao Tse-tung in China. Both failed. The Soviet Union collapsed and no longer exists. China renounced isolation and integrated its economy into world commerce under Deng Xiaoping.

Although developing economies as a whole did not fare as well as China, all prospered to some extent, and some enjoyed remarkable success, led by the “Asian tigers” (Hong Kong, South Korea, Singapore, and Taiwan). These economies thrived on trade.¹⁰ Among other developing economies, not one would seek to revert to the trading practices of the colonial era. The multilateral trading system was a distinct improvement for all.

The peace dividend that the founders of the multilateral trading system sought delivered a more robust Western Europe, eventually encompassing many of the countries the Soviet Union had dominated. The disintegration of the Soviet Union, in 1991, was viewed as a sign of the superiority of the liberal economic model, which promoted market forces to determine competitive outcomes (with guardrails to avoid excesses) and advanced the cause of political freedom. The aberration of a Russia that is now seeking to restore its imperialist past and invading its neighbors does not prove that the liberal international order was wrong. Open trade was never going to be a complete guarantee against aggression. Russia’s accession to the WTO did not temper its imperialist ambition or deter this autocratically controlled resource-based economy. Commercial interests are not so dominant that they render all other national goals irrelevant. Less German dependence on Russian energy would hardly have stopped Putin from invading Ukraine.

THE SYSTEM LOSES ITS LUSTER

The financial crisis of 2008 discredited globalization to a degree (Hufbauer and Lu 2017), with critics arguing that it mainly created inequalities and domestic dislocations. In their critique, they said little about other, larger forces shaping the world economy, such as technological change, which is widely accepted and highly beneficial but clearly disruptive. Technology drove rapid change, both by itself and through trade. Large container ships plied the oceans, and the internet enabled global supply chains to function as never before. But trade has not been as dominant an economic factor as technology: The power loom destroyed cottage weaving in England as the Industrial Revolution took hold. In recent times, smartphones made entire industries irrelevant. Populists attack trade, but few would risk telling audiences to discard their smartphones, even though smartphones, whether produced abroad or at home, have destroyed whole industries, from roadmaps, GPS devices, and digital cameras to music recorded on disks or vinyl. It is far easier and less complicated to blame trade than technology for disrupted industries.

10 “The primary reason for the rise of the economies of the Four Asian Tigers was their export policies. The four countries followed different approaches; Singapore and Hong Kong implemented neoliberal trading regimes that promoted free trade. Whereas Taiwan and South Korea adopted hybrid regimes that suited their export businesses.” See “Four Asian Tigers,” Corporate Finance Institute, May 10, 2022, <https://corporatefinanceinstitute.com/resources/knowledge/economics/four-asian-tigers/>.

A revisionist postwar history became popular. The liberal international order, critics falsely claim, was designed for corporations at the expense of workers. This was never the case. US trade negotiators seeking to open foreign markets generally aligned themselves with worker goals, striving to promote exports where domestic workers are competitive and shying away from trade concessions where workers are less competitive. Concern for American workers explains why a multifiber textile agreement remained in place for a quarter century,¹¹ why US tariffs on rubber-soled footwear are still 37.5 percent¹² and tariffs on light trucks are 25 percent. Nor is it clear that a world without intellectual property protection would have served American workers better, as the products they made would have had to compete with knock-offs and counterfeits. Where protections existed for overseas investment, they were generally invoked only at the margin, when property was taken unfairly. A world of rampant expropriation abroad would not have created a boom at home.

HAS TRADE INCREASED INCOME INEQUALITY?

Abundant evidence shows that income inequality has increased in many countries, both in real terms and in its political impact. But claiming that inequality in the world has been and is being caused by international trade agreements is more tenuous. The houses of whaling ship captains of Nantucket were far grander than those of people not engaged in whaling, but the Nantucket economy as a whole thrived. The houses built in Salem, Massachusetts by captains of ships engaged in the China trade were more impressive than average, but all of maritime Massachusetts prospered. Imports gained market share, most people benefited. But some people became more prosperous than others.

Income inequality today is higher than it has been seen since the Gilded Age, when millionaires in Newport, Rhode Island built mansions rivalling royal European chateaus. Vast wealth was accumulated by Vanderbilt and Harriman (railroads), Carnegie (steel), Rockefeller (oil), Morgan (finance), and Ford (automobiles). Today even larger fortunes have accrued to Gates (software), Bezos (retail distribution), Zuckerberg (social media), and Musk (electric vehicles). None of these fortunes was created primarily by trade.

At the other end of the income scale are workers' wages, which have stagnated. But wages are low at companies that are less affected by trade (such as grocery chains), as well as at companies that import and export. Whether a firm imports, exports, or manufactures and whether international competition or trade agreements exist does not affect the division of profits among executives, founders, public shareholders, and employees.

In the economic literature, much attention has been devoted to the distributional impact of international trade since an influential article by Wolfgang Stolper and Paul Samuelson (1941) was published 81 years ago. Roughly speaking, the Stolper-Samuelson theorem suggests that liberalizing

11 Adam Hayes, "Multifiber Arrangement (MFA)," Investopedia, October 25, 2021, <https://www.investopedia.com/terms/m/multi-fiber-arrangement.asp>.

12 Tuttle Law, "Update on Tariff Classification of Footwear with 'Textile Outer Soles,'" Customs Law Newsletter, March 5, 2012, https://www.tuttlelaw.com/newsletters/2012/footwear_textile_outersoles3-5-2012.html.

trade between rich and poor countries can have a similar impact on wages in a large, rich, and economically diversified country as allowing greater immigration of unskilled workers from poor countries. The reason is that imports from poor countries are expected to be concentrated in labor-intensive products, thereby reducing demand for unskilled labor in the rich country. In practice, however, technological differences drive trade patterns much more than the labor intensity or capital intensity of production.

A related *bête noir* of trade skeptics is the role of multinational corporations (MNCs) when they invest abroad. Overseas MNC plants are viewed as replacing US plants, reducing employment and depressing wages in the United States. Some MNCs have indeed simultaneously closed their US plants and opened plants in Mexico or China. But the plural of anecdotes is not data. Analysis shows that MNCs that invest abroad also export more, create more jobs, and conduct more research and development (R&D) in the United States than comparable firms with a smaller overseas presence (Hufbauer, Moran, and Oldenski 2013). Underlying these counterintuitive findings is the fact that global operations enable MNCs to both reap economies of scale in applying their costly R&D and increase their exports through familiarity with foreign markets.

Capital is mobile, labor is not, but it is technology, not labor cost differentials, that make Taiwan and South Korea the dominant sources of the most advanced computer chips. They also account for China's success in producing wind turbines and Brazil's in producing medium-range aircraft. The United States imports far more from other rich economies (Canada, Europe, Japan) and middle-income countries (Mexico, China) than it does from poor countries (India, Vietnam, Congo) where labor costs are \$20 a day or less.¹³

The technology content of imports and exports fosters some inequality. US exports are concentrated in technology-intensive products and imports in more basic products, thereby modestly contributing to greater wage inequality between high-skilled and low-skilled workers. But who gains from trade—workers, management, founders, or investors—is essentially a function of tax policy, labor policy, and government spending priorities.¹⁴ Trade policy does not determine the degree to which workers have a say in corporate decisions or what share of corporate revenues they receive.

13 See "Average Monthly Earnings of Employees by Sex and Economic Activity," International Labor Organization, April 12, 2022, <https://ilostat.ilo.org/topics/wages/>.

14 Over time, EU member states have distributed trade benefits differently from one another, despite having the same trade policies. In Germany, Italy, and the United Kingdom, inequality rose slightly in recent decades. Germany's Gini coefficient increased by 0.03 between 1991 and 2018, Italy's by 0.02 between 1986 and 2018, and the United Kingdom's by 0.01 between 1969 and 2017. By contrast, in France, Greece, and Ireland, the Gini coefficient decreased. France's Gini coefficient fell by 0.03 between 1978 and 2018, Greece's by 0.04 between 1995 and 2019, and Ireland's by 0.04 between 1987 and 2018. See "Gini coefficient," Our World in Data, <https://ourworldindata.org/grapher/economic-inequality-gini-index?tab=table>.

HAVE FREE TRADE AGREEMENTS REALLY BEEN BAD FOR THE UNITED STATES?

When discussing free trade agreements (FTAs) in her October 2022 speech, Ambassador Tai talked of manufacturing communities “decimated” by these agreements. It is reasonable to ask which FTAs created this supposed devastation.

The most economically meaningful US FTA was NAFTA, revised in 2020 as the US-Mexico-Canada Agreement (USMCA). As a result of this FTA, the three countries trade among themselves largely free of any tariffs. Since it took effect, in 1994, all US presidents have bolstered North American trade by keeping this crucial FTA in place, and several, including Trump, updated its terms. By a large majority, Congress endorsed the USMCA. Although there was deep concern about US sourcing of manufactured goods in Mexico when NAFTA was created, most of the shift of sourcing ultimately moved on to countries in Asia with which the United States had no FTA at the time (Hufbauer, Cimino-Isaacs, and Moran 2014).

USMCA largely preserves the openness of America’s borders to regional trade that existed under NAFTA. On July 8, 2022, Ambassador Tai and Canadian Trade Minister Mary Ng met and “highlighted the importance of the US-Canada economic relationship and reiterated their commitment to a full implementation of the USMCA.” In a meeting with Mexico’s Secretary of Economy Raquel Buenrostro, Ambassador Tai highlighted the importance of US-Mexico economic relations and continued implementation of the USMCA. The labor provisions of the USMCA primarily affect trade with Mexico, as do tighter rules of origin for components, but the border is basically open to trade, something both governments consider beneficial.¹⁵

The next most important FTA in terms of economic consequence is the United States–Korea Free Trade Agreement (KORUS FTA), which was recently revised.¹⁶ USTR Tai has celebrated this agreement as “a manifestation of the resilience in our bilateral economic relationship.”¹⁷ The United States’ other FTAs are relatively small in trade terms from a US perspective. No suggestion is made that these more political and less economically meaningful agreements, such as the agreements with Israel, Jordan, and Oman, cause domestic economic harm in the United States. It is not credible to blame the remaining agreements with friends like Australia, a limited trade agreement with Japan said by its signatories to be a prelude to the negotiation of an FTA, or the more than a dozen agreements with smaller Latin American countries and Morocco for causing harm to the US economy.

15 “Readout of Ambassador Katherine Tai’s Virtual Meeting with Mexico’s Secretary of Economy Raquel Buenrostro,” Office of the United States Trade Representative, November 3, 2022, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2022/november/readout-ambassador-katherine-tais-virtual-meeting-mexicos-secretary-economy-raquel-buenrostro>.

16 KORUS 2.0 largely kept the original agreement intact in return for Korean acceptance of highly restrictive quotas on its steel exports to the United States. The biggest change was retarding the phaseout of auto and truck tariffs.

17 “Remarks by Ambassador Katherine Tai to Mark the 10th Anniversary of the U.S.-Korea Free Trade Agreement,” Office of the United States Trade Representative, March 2022, <https://ustr.gov/about-us/policy-offices/press-office/speeches-and-remarks/2022/march/remarks-ambassador-katherine-tai-10th-anniversary-us-korea-free-trade-agreement>.

Forty years of FTAs brought some benefits. They did not bring about deindustrialization. Why then attack them? Perhaps attributing economic harm from FTAs is a preemptive attack on the United States rejoining the last free trade agreement negotiated by the United States, one that Trump cancelled, what is now the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), the successor to the TPP. The United States already has FTAs with all of the larger CPTPP parties other than Japan, and progressives have not highlighted concerns with its ally Japan as a trading partner. The TPP, which the United States signed, was designed to be an economic alliance that would maintain America's economic influence in the region. The Indo-Pacific Economic Framework (IPEF) is not an adequate substitute. IPEF concentrates on cooperation on supply chain resiliency, clean energy, infrastructure, digital commerce, and fighting corruption. It does not contain additional market access as an objective. Few would see it as cementing relations among participants through much greater economic integration.

Was the World Trade Organization the Problem?

Critics of neoliberalism will not find a headlong rush to trade liberalization in the historic record of the WTO. There has been no traditional trade liberalization in the WTO since it was created in 1995, outside of removing tariffs on information technology products, where US workers and firms have a strong positive economic stake. The steady reduction of tariffs occurred earlier, in reciprocal negotiations concluded over several past generations—in eight GATT negotiating rounds. Aside from the Information Technology Agreement (ITA) and the Agreement on Financial Services (FSA), all of the liberalization since then has been contributed by other countries, primarily the 36 that have negotiated entry into the WTO since 1995 (including China!), along with unilateral tariff cuts by others, not the United States. Indeed, the average US tariff on dutiable imports in 1995 of 4.6 percent dropped to only 3.4 percent in 2021.¹⁸ None of the other trade agreements concluded in the WTO has involved any opening of the US market. These agreements stripped away other countries' red tape at the border (the Trade Facilitation Agreement), prohibited agricultural export subsidies (a US objective), introduced some disciplines on fishery subsidies (also a US objective), and brought greater fairness to the domestic regulation of services (which the United States already accords and hopes others will follow)—all initiatives the United States supported and still values.

Is There a Convincing Counterfactual?

Would higher tariffs have preserved American jobs? No case can be made for this proposition.

Neither left-wing nor right-wing critics call for dismantling the current, relatively open trade regime. No voices suggest a broad return to isolationism. Political support exists for tariffs on imports from China, but those calls largely

18 See "United States Trade Summary 1995," World Bank, World Integrated Trade Solution, <https://wits.worldbank.org/CountryProfile/en/Country/USA/Year/1995/SummaryText>, and "World Tariff Profiles 2021: United States of America," World Trade Organization, https://www.wto.org/english/res_e/statis_e/daily_update_e/tariff_profiles/US_e.pdf.

reflect geopolitical rivalry, not a desire to resurrect old industries (Rodrik 2022). Political calls for onshoring, nearshoring, and friendshoring are offered in the guise of achieving supply resilience and national security, not justified as permanent protection.

Where imports caused domestic disruption and competitive advantage moved elsewhere, the imposition of severe trade restrictions could have slowed change—but it could not have prevented it. Attempts were made to support domestic footwear production in the 1970s through trade restrictions, but these measures could not stop the erosion. A far broader, multiproduct protectionist policy was considered in 1970—a Smoot-Hawley approach with quantitative import restrictions triggered by a rapid increase in imports.¹⁹ Had it become law and trade policy tried to preserve old industries at the expense of new ones—starving Route 128 around Boston, Research Triangle Park in North Carolina, and Silicon Valley in California of trade policy support for emerging high-tech industries while trying to hang on to older, traditional industries in which competitive advantage had moved elsewhere—the US economy and the well-being of American workers would have suffered. In the 1970s, Japanese color television manufacturers caused injury to the US consumer electronics industry, and the United States applied antidumping duties. These measures did not reverse the trend. It was not US corporations moving plants offshore that destroyed the color TV industry in the United States but rather competition from Japanese firms. In the 1990s, Japan’s closed market and Japanese manufacturer Fuji’s dumping of film damaged Kodak. But it was the shift from film to digital cameras, not trade practices, that ultimately destroyed Kodak.

Trade restrictions cannot undo what was done in the past or prevent change in the future. On the contrary, such restrictions may act as regressive taxes and trigger new shocks in labor markets. The steady decline in American manufacturing jobs as a share of total employment started in the late 1960s, long before trade was an important cause of US structural change. The decline is attributable primarily to rapid productivity growth.

SO, IF TRADE AGREEMENTS WERE NOT THE PROBLEM, WHAT WENT WRONG?

Promises Were Broken

The US government made promises it did not keep with respect to trade. Starting with the Reciprocal Trade Agreements Act of 1934, US presidents promised that the government would step in if trade caused injury to US workers. Where an industry was injured by a substantial influx of competing products, “import relief” would be provided through a safeguard action.

In practice, safeguard remedies have rarely been applied. Successive administrations have been reluctant to interfere very much with market forces, and WTO dispute settlement cases often ruled against relief or narrowed its availability. The Appellate Body (whose existence the Trump administration ended) rendered safeguard actions largely unobtainable, despite a new safeguards agreement designed to make relief available. At the same time,

19 “Summary of Principal Provisions of the Trade Act of 1970,” Committee on Finance, United States Senate, October 9, 1970, <https://www.finance.senate.gov/imo/media/doc/51278.pdf>.

relief through actions against unfair trade (dumping and subsidization) was spotty at best.

From the viewpoint of workers and injured companies, trade “remedies” arrived too late and were too little. Free traders applauded the results, but popular support for an open international trading system continued to erode. Ultimately, populist forces rose and took the reins of government.

It was not just protection that was promised. Under US trade law, retraining and relocation grants for workers were supposed to have been provided. This form of support has always been inadequate (Muro and Parilla 2017). On average, between 2003 and 2015, only 136,000 workers a year were certified for trade adjustment assistance (TAA) benefits—less than 1 percent of workers displaced annually for all reasons not of their own making (Hufbauer and Lu 2017). What was needed was a vastly larger program seeking to restore workers to meaningful jobs throughout the economy, whether they were laid off by trade or other shocks. Losing a job to a robot is no less painful than losing a job to Chinese imports. A stronger safety net was needed that could soften such blows by providing more consistent access to health insurance, life-long education, and income support, such as wage insurance (Kletzer 2001).

But instead of enlarging the safety net, the meagre TAA program was suspended in 2022—a strange position for an administration committed to worker-centric trade policy. On July 1, 2022, the termination provision under Section 285(a) of the Trade Act of 1974, as amended, took effect. Until further notice, the Labor Department may not issue any determinations and may not accept any new petitions or requests for reconsideration.²⁰

According to one estimate, between 2001 and 2015—a period that covers the “China shock”—expanding imports hurt about 312,000 workers a year on average (Hufbauer and Lu 2017). This number is large (although the actual number may be lower, as it is an upper bound based on the assumption that every dollar spent on imports comes at the expense of purchases of American products and credit should be given for a significant offsetting increase in employment as a result of increased exports). It calls for a meaningful response, even if it represents under 2 percent of the total number of periods of involuntary unemployment experienced by workers during those years (some workers experienced more than one period of unemployment).²¹

Almost 6 million manufacturing jobs were lost in the United States between 2000 and 2010.²² This loss was overwhelmingly caused by two recessions as well as relatively faster productivity growth, but trade did play a role. Autor, Dorn, and

20 Requests to amend current certifications may still be filed. Workers who were certified and separated from their job on or before June 30, 2022, may still be eligible for benefits and services and should [contact their nearest American Jobs Center](#). For more details, see Employment and Training Administration, Training and Employment Guidance Letter No. 13-21, <https://www.dol.gov/agencies/eta/advisories/training-and-employment-guidance-letter-no-13-21>.

21 The estimate of the employment equivalence of trade comes from Hufbauer and Lu (2017). The estimate of overall involuntary unemployment is based on the annual sum of weekly unemployment claims from FRED Economic Data, Federal Reserve Bank of St. Louis, <https://fred.stlouisfed.org/series/ICSA>.

22 William B. Bonvillian, “US manufacturing decline and the rise of new production innovation paradigms,” OECD, 2017, <https://www.oecd.org/unitedstates/us-manufacturing-decline-and-the-rise-of-new-production-innovation-paradigms.htm>.

Hanson (2021) estimate that 1 million jobs in manufacturing were lost to the China shock, one-sixth of total job losses at the time. The coincidence of the shocks gave trade a greater political resonance than this estimate suggests.

The benefits of trade are usually broad-based and less apparent than the displacements of domestic production, which are often very concrete and concentrated in certain localities. The problem was thus more that losses and gains affected different locations rather than the aggregate impact of trade on employment. All of the unemployed workers deserved supportive policies that met their needs.

Much research has been conducted on the spatial/regional impacts of US trade (Feenstra, Ma, and Xu 2019; Autor, Dorn, and Hanson 2013; Eriksson et al. 2021). This work finds evidence that some communities affected by imports experienced adverse effects, including not just plant closings and lost jobs but also crime (Che, Xu, and Zhang 2018), depression, increased opioid use (Charles, Hurst, and Schwartz 2018), and deaths of despair (Pierce and Schott 2020). There is some debate about whether shocks from trade at the local level are worse than other shocks. Researchers find very similar effects of manufacturing job loss regardless of cause (Charles, Hurst, and Schwartz 2018). Nevertheless, in the case of trade, a program existed to ameliorate harms from trade but was never sufficient.

Losses of employment as a result of trade must never be trivialized. They must be addressed with serious measures. The best answer is almost never long-term protection. The correct policy answer is having in place adjustment programs that are equal to the task of meeting dislocations. Trade policy is too blunt to be useful for this purpose. It is also ineffective. Workers lose their jobs when a plant burns down, or a company goes bankrupt, or is forced to close because of changes in technology within or outside US borders. Programs are needed to train and seek to reemploy workers whatever the cause of job loss.

Two great strengths of the US economy are its flexible prices and flexible labor market. It would be a mistake to introduce rigidities through excessive protection that would make US industries less competitive when what is needed are more effective, fully funded, labor programs. Trade provisions, such as those in USMCA, may be a selective part of the response, but they are hardly equal to the need for a suite of worker-centered national policies.

The Challenge Presented by China

The fault critics make with greatest force with respect to US trade policy concerns normalizing trade relations with China and permitting its entry into the WTO in 2001. What could have been done differently? China's accession to the WTO included no additional access for Chinese goods to the US market. No opening of any kind by the United States occurred; the opening was done only by China. Nevertheless, having China in the same trading system as the United States obligated the United States not to alter its trade regime with respect to Chinese goods or services except as allowed by WTO rules.

The nature of the Chinese economy was well-known when China was admitted to the WTO. WTO members active in the Chinese WTO accession process added authority for additional trade restrictions to be imposed on Chinese goods if they disrupted markets. Special measures were authorized for

what seemed to be long transition periods (12-15 years). These flexibilities were insufficient, were not used to the extent permitted, and ended prematurely.

The operating assumption was that the Chinese system would converge with its major trading partners to become more of a market economy. For this reason, authorization of additional measures was for the most part transitional. Not anticipated was the huge expansion of Chinese exports, which rose from 4.7 percent of global exports of goods in 2001 to 14.7 percent in 2020 (Nicita and Razo 2021).

Scholars differ on the efficacy of the conditions specified for bringing China into the WTO. John Jackson, one of the intellectual forces behind the creation of the WTO, concluded that differing economic systems would require interface mechanisms to live in harmony (Kennedy 1995). Mavroidis and Sapir (2021) view the WTO rules, with appropriate amendments, as providing space for alternative economic structures and the inclusion of postcommunist states. The key problem for them is China's massive economic size, combined with its statist economic structure, which has become more rather than less pronounced in recent years. Mark Wu (2016) holds that the Chinese party-state system is so unique that existing flexibilities within the WTO system are insufficient. We agree with these assessments, but in our view, the Bush administration seriously erred in not using the safeguard measures that were available to it. The special safeguard provisions should have been extended to offset persistent distortions in the Chinese economy. Beyond this, additional rules are needed to meet systemic differences posed by China's policy choices (e.g., state-owned enterprises). Due to the unlikelihood that these changes in the multilateral rules will be negotiated, we expect to see continuing departures from existing WTO rules in reaction to China's state involvement in its economy.

Implicit in the current criticism of China's entry is not how China was brought into the WTO but that it was allowed in at all. This criticism presupposes that any one of the three possible counterfactuals—continued "temporary" extension of most-favored nation (MFN) treatment to Chinese exports without Chinese concessions (wholly unpalatable); ending MFN treatment and imposing Smoot-Hawley tariffs on Chinese imports (preemptive decoupling); and keeping China (home to more than a fifth of the world's population) out—would have been practical or produced better results.

Few countries would have backed keeping China out of the WTO. And at best, doing so would have been ineffective, as China would have built its own trading relationships with the rest of the world. China would not have liberalized its trade regime more than it did upon entering the WTO. At worst, if isolating China had been feasible, the result could have been the creation of a very large North Korea and the forging of an iron-clad alliance between China and Russia. Keeping China out of the WTO would thus not have served US interests.

The counterfactual case of keeping China out of the WTO also assumes that higher US tariffs on imports from China would have been successful in holding back China's economic growth. High US tariffs on imports from China in recent years have not had that effect. Although 66.4 percent of US imports from China are subject to an average tariff of 19.3 percent, Chinese imports grew 10 percent faster in 2022 than they did in 2021 and are 10 percent above the level of 2017,

the year before US tariffs were imposed.²³ The US trade deficit with China is also running at 10 percent above pre-tariff war levels, and China's global trade surplus remains near all-time highs.²⁴

There is no guarantee that keeping China out of the WTO and maintaining higher tariffs on Chinese goods would have prevented China's emergence as a major world economy or that the effect on the US market and jobs would have been startlingly different. High tariffs on imports of shoes did not prevent the US market from becoming 99 percent supplied by imports.²⁵

The argument can be made that China's entry into the WTO constrained the United States from retaliating against Chinese measures. But in 2018, the United States acted without a trade agreement justification, just as it did in the 1990s when confronted with the rise of Japan.

Speculating about what could have been done differently when China acceded to the WTO is not a very useful exercise. China did not evolve, as anticipated, toward a more market-oriented economy. In addition, the geopolitical situation in 2001 was nothing like it is today. Twenty years ago, the US trade and foreign policy communities did not view China as they do today, as a dangerous rival. They were not so naïve that they expected a near-term movement toward democracy, but they hoped that economic freedoms would create domestic forces for evolution in a democratic direction. The trade relationship today is one that requires management given the substantial state and party involvement in the Chinese economy and geostrategic rivalry with the United States.

Going forward, national security interests will dominate the bilateral trading relationship between the United States and China. US national security interests do not require complete decoupling from China, a mutually harmful outcome that would also be detrimental to the world economy, although both countries are fostering a reduction in mutual dependencies. Restrictions should be narrowly targeted wherever possible unless a decision is taken that the costs of broader trade restrictions are clearly outweighed by the benefits. China is the largest source of US goods imports, reaching a peak of \$500 billion just before the onset of the pandemic.²⁶ Companies are in the process of diversifying their supply chains, but they cannot end deep relationships with Chinese sources overnight without enormous cost (and many do not desire to do so), and certain raw materials and intermediate products are not easy to source elsewhere. Moreover, complete decoupling would make cooperation where mutual interests align difficult if not impossible.

23 US import data are from US Census, "Trade in Goods with China," <https://www.census.gov/foreign-trade/balance/c5700.html>. Tariff-level data are from Chad P. Bown, "US-China Trade War Tariffs: An Up-to-Date Chart," PIIE Charts, April 22, 2022, <https://www.piie.com/research/piie-charts/us-china-trade-war-tariffs-date-chart>.

24 "China Balance of Trade," Trading Economics, October 2022, <https://tradingeconomics.com/china/balance-of-trade/>.

25 "Footwear," US International Trade Commission, July 1, 2021, https://www.usitc.gov/research_and_analysis/tradeshifts/2020/footwear.htm#_ftn4. See also Aida Ahmad, "Shoe Importers Push to Cut US Tariffs," Footwear Distributors and Retailers of America, June 21, 2012, <https://fdra.org/latest-news/shoe-importers-push-to-cut-us-tariffs/>.

26 US Census, "Trade in Goods with China," <https://www.census.gov/foreign-trade/balance/c5700.html>.

RISKS OF REJECTING AN OPEN INTERNATIONAL TRADING SYSTEM ARE ENORMOUS

A more protectionist United States would undermine the global economy, as the Smoot-Hawley experience in the 1930s vividly demonstrated. Trade agreements maintained and improved the liberal postwar trading system. They were a principal means of America providing global leadership (Lawrence 2021). The system received widespread support from other countries. Since the 1990s, foreign markets have opened much more than the US market. Some of this opening reflects additional trade agreements, but most of it reflects unilateral liberalization by countries that have decided that lower tariff barriers are in their own interest.

It will be a tragedy if just as the United States succeeded in persuading other countries that freer trade was in their interest, it may be turning inward, as demonstrated through its inclusion of Buy American measures in its climate and infrastructure industrial policies at the expense of closer relations with allies and friends. Other countries are likely to emulate the United States if it becomes increasingly reluctant to open its market, just as they emulated it when its economy became more open. One of the best ways to cement relations with other countries aligned with America's values is by entering into trade agreements with them that lead to greater economic integration. This policy tool should not be discarded.

Danger lurks in not defending the benefits of global trade openness and the rules needed to support that system. For 40 years, the Conservative Party in Britain made no effort to try to sell European integration to the British public. As a result, in 2019 a majority of voters supported the referendum to pull out of the European Union (Tugendhat 2022). A US government that does not tell its people about the benefits of an open international trading system risks a similar loss. It is not enough for President Biden to state, in a long narrative in his annual trade agenda, that "the Biden administration is committed to the WTO" (USTR 2022, 11). The international trading system needs more outspoken US support and leadership if it is to be maintained and improved.

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