TOWARD A BIPOLAR ECONOMIC ORDER?
U.S. TRADE STRATEGY IN THE 21st CENTURY

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Introduction

Divining the eventual direction of U.S. trade policy might best be left to sorcerers, particularly with the dramatic uncertainty that has been created by the COVID-19 crisis. President Trump has abandoned the Trans-Pacific Partnership (TPP), halted the Transatlantic Trade and Investment Partnership (TTIP) negotiations, and imposed unilateral tariffs on both friends and foes alike. At the same time, we have seen the morphing of the North American Free Trade Agreement (NAFTA) into the United States-Mexico-Canada Agreement (USMCA), a highly limited bilateral agreement with Japan at the end of 2019, and a phase one U.S.-China trade deal on January 15, 2020. Some argue that many of these policies are simply a lashing out by a protectionist president without any coherent long-term strategy. Yet the key question that remains unanswered is: If Trump loses the election, will a Democratic president revert to a global multilateral approach to trade and warmer relations with China? And if Trump is re-elected, will we see more unilateral protectionist threats to force countries to negotiate bilateral trade agreements?

This paper argues that the trend toward unilateralism and more aggressive trade policy toward China is not simply a passing phase tied to Trump's presidency. I trace the post-World War II evolution of U.S. trade policy across three levels of analysis—systemic, domestic, and ideational. Specifically, I argue that the aggressive protectionist shift is likely to be sustained to a significant extent particularly with respect to China, whether Trump or a Democrat is elected in November 2020. As I argue, over the last 70 years, U.S. trade policy has systematically moved away from the early 1950s–1970s multilateral global approach focused on the General Agreement on Tariffs and Trade (GATT) to an increasing variety of bilateral and minilateral trade accords. I show how these changes have been driven by key systemic shifts with the end of the Cold War, the increasing domestic pressures in the U.S. for protection, and a waning ideological consensus on the benefits of free trade—particularly with China. From my perspective, the COVID-19 crisis has provided further ammunition to China hawks who have raised concerns about the excessive dependence on China for critical medical equipment, which will accelerate the current pressures to decouple from China.

The Evolution of U.S. Trade Policy and Driving Forces

Analytically, I divide U.S. trade policy into three phases: a post-WWII focus on multiproduct multilateralism (1940s–1980s), a post-Cold War multi-pronged liberalization effort including regional and bilateral trade agreements (1980s–2016), and now, with the Trump administration, an effort to move to a Soviet Cold War style trade system with China, focusing on bilateral agreements and unilateral pressure (2017–the present). In each phase, I offer an explanation for the U.S. shift away from promoting multilateral global liberalization to the increasing unilateral and bilateral approach that is increasingly protectionist. Specifically, I show how systemic changes led the United States to be more aggressive toward its allies to rectify perceived trade asymmetries after the end of the Cold War, and then how increasing domestic pressures and a shifting ideational consensus on the benefits of a global multilateral approach led to a greater focus on bilateralism by the third phase.

Phase 1: Multilateralism—From the Cold War to the 1980s

During the first phase, shortly after the 1944 creation of the Bretton Woods monetary system, the United States sought to institutionalize multilateral trade agreements. This began with the creation of the International Trade Organization (ITO), which eventually failed to be ratified by the United States and was followed by the GATT in 1947. Multilateralism flourished with a series of GATT negotiating rounds that brought significantly lower tariffs. Still, one should not view this as a pure "golden age" of global multilateralism. At the same time as the United States pushed for a global approach, it also negotiated bilateral and multilateral sectoral accords focused on textiles and apparel, steel, televisions, footwear, and autos.[1]

In terms of driving forces, at the systemic level, the U.S. was the clear hegemon among Western states after WWII. It was an overall systemic hegemon with nuclear weapons and a dominant economy. This dominance allowed it to lead the creation of the GATT and the Bretton Woods institutions. But with the rise of the Soviet Union as a challenger and with nuclear weapons, the overall system moved to bipolarity. Each pole, however, was the dominant economic hegemon in its sphere of influence. The "nested" context of the overall economic system within a bipolar security system proved to be critical.[2] This systemic context gave the U.S. executive leverage to partially resist domestically oriented protectionist groups such as the textile industry by raising the spectre of Cold War threats—despite the weakness of the United States vis-a-vis societal groups.[3]

At the domestic level, unions expressed widespread support for U.S. trade liberalization. After WWII, with much of the world's industrial capacity destroyed, there was little competition for U.S. goods. Market opening would thus help U.S. labour. But as Baldwin notes, domestic support for open trade was somewhat qualified and subject to back and forth partisan bickering.[4] Even the effort to create the ITO floundered on the domestic shoals of opposition from both free traders and protectionists. The former thought the ITO had too many exceptions, and the latter worried about shifting trade authority to an international body.[5] Still, President Truman was able to move forward to use the GATT. The position of labour began to change in the late 1960s, and the Democratic party found itself shifting from a liberal to a protectionist orientation. The result of these pressures was the negotiation of sector-specific voluntary export restraints (VERs) mentioned previously. But while free trade purists might find these accords reprehensible and a slide down a slippery slope into protectionism, the reality was quite different.[6] In the case of sectoral arrangements in textiles and apparel, President Kennedy removed opposition by industries that viewed themselves as *losing* from freer trade. By appeasing these powerful protectionism proponents, the United States effectively used these accords as pressure escape valves, to keep the multilateral trade order from exploding.

At the ideational level, the writings of free trade economists had influenced thinking on the benefits of open markets. Alone, these scholarly arguments might have been relegated to the halls of academia. But their ideas found a reception among key policy entrepreneurs such as Cordell Hull.[7] The first step that reversed the Smoot-Hawley tariffs of 1930 was Hull's championed Reciprocal Trade Agreement Act, which gave the president authority to negotiate bilateral free trade agreements once it passed in 1934. This was followed by efforts to create a multilateral liberal order, but bureaucratic politics made this difficult. For example, the United States substituted the ITO for the GATT not strictly for materially rational purposes, but also because of a strong ideological commitment to dealing with problems on a multilateral basis.[8]

To sum up: At the systemic level, the Cold War structure within which the United States was a dominant economic hegemon combined with broad support for global trade liberalization and an ideational consensus on the benefits of free trade. The Executive Branch did address pressures from uncompetitive industries, providing them with a variety of temporary VERs, or in the case of the textiles and apparel industry, a separate international regime that remained nested within the GATT.[9] But the major thrust remained a multilateral approach to trade liberalization centred on the GATT. These factors began to change by the 1980s, driving a shift in U.S. trade policy.

Phase 2: Minilateralism—From the 1980s to 2016

The second phase witnessed the U.S. pursuit of a multi-pronged trade liberalization approach.[10] Despite the successful conclusion of the Uruguay Round of the GATT that created the World Trade Organization (WTO), in what constituted a pivot from a pure multilateral trade strategy, the United States negotiated a broad variety of minilateral accords, both regionally (as in the case of NAFTA) and across regions (as in the case of its founding role in APEC). These were buttressed by a large number of bilateral agreements ranging from the U.S.-Jordan agreement to accords with other strategic partners under President Bush. The United States also began to negotiate transregional mega-FTAs during this period. While eventually abandoned, the TTIP[11] and the TPP[12] would have allowed the United States to lead in pursuing alternative arrangements on behind-the-border measures.[13]

What causal factors drove these changes? At the systemic level, three key developments drove trade negotiations during this period. First, the end of the Cold War and the emergence of a unipolar structure at the overall level changed the systemic calculus of trade agreements for the United States. Second, the EU rose as a significant economic power with growing membership and deepening integration, pursuing a unified trade policy led by the Commission. Third, the 9/11 attack shifted U.S. interest to the negotiation of bilateral agreements for security reasons. The Bush administration, as part of its new national security policy, called for a three-pronged trade approach: a focus on the Doha Round, the Free Trade Area of the Americas (FTAA), and bilateral accords.[14] But in practice, the United States was only able to make progress with bilateral FTAs with relatively small countries, and the mega-FTAs of the TTIP and the TPP have foundered despite the Obama administration's efforts. In particular, the TTIP has been the victim of complex internal domestic politics in the U.S. and EU.[15]

Domestically, this period witnessed strong lobbying from technology and financial firms for the conclusion of multilateral sectoral agreement such as the ITA, BTA, and FSA, especially during the 1996–1998 period of the Clinton administration. This was due in part to the absence of an agreement in key sectors such as information, telecom, and financial services. Pressure from multinational corporations also helped to launch the focus on alternatives to the WTO in the Bush administration. Business groups continued to worry that the EU was moving forward in the negotiation of trade accords, particularly with eastward expansion. In 2001, the Business Roundtable argued that the WTO framework needed a "jumpstart" with regional and bilateral initiatives.[16] Ironically, the move to bilateral initiatives created a problem for multinational corporations, as bilateral FTAs varied significantly in their rules of origin and had limited coverage of global trade due to their security focus. The "spaghetti bowl" of agreements created a significant headache for multinational corporation supply chains, which produced pressure on the United States to move to mega-FTAs.

At the ideational level, prominent economists began to call for both sectoral and bilateral accords in the early 2000s. For example, in 2000, Laura Tyson, then chair of the Council of Economic Advisers under President Clinton, argued that a sectoral approach is a sound alternative to the multi-sector WTO approach, which had "outlived its usefulness."[17] By 2009, this enthusiasm, which was an important factor in pushing the Bush administration to pursue bilateral FTAs, was tempered. Gary Hufbauer, a prominent advocate of competitive liberalization at the Peterson Institute for International Economics, noted that China and India "would rather pursue bilateral FTAs than make the necessary concessions to push Doha across the finish line."[18] Broadly, the economic community of experts no longer saw multilateral approaches as the only path to trade liberalization.

Phase 3: Unilateralism and Bilateralism—2017 to the Present

The third phase has been marked by President Trump coming to office in January 2017, leading to a sharp shift in U.S. trade policy. During the 2016 presidential campaign, candidate Trump attacked the TPP, NAFTA, and the United States-Korea Free Trade Agreement (KORUS), and criticized China and other countries for running large surpluses with the United States. While Trump immediately withdrew from the TPP following his election, this was followed by a brief hiatus in protectionist action. Trump pushed to renegotiate both KORUS and NAFTA and concluded a narrow bilateral agreement with Japan. The new arrangement on KORUS was signed on September 25, 2018, continuing 25 percent U.S. truck tariffs, but removing some export restrictions and exempting Korea on steel tariffs for an export quota.[19] Where KORUS changes were limited, the new NAFTA (now USMCA) has important changes. The new agreement has provisions to increase content requirements in autos (up from 62.5 percent to 75 percent), as well as other key provisions that made the accord less liberal.[20]

In a significantly more protectionist bent, the United States began to unilaterally use a variety of trade laws that affected friends and foes alike. Salient among these were the use of Sections 201 and 301 of the Trade Act of 1974, and Section 232 of the Trade Expansion Act of 1962. Of these the most important proved to be Section 301. In August 2017, Trump asked the United States Trade Representative (USTR) to investigate whether China has implemented laws or policies that adversely affected the United States in intellectual property through forced technology transfers.[21] In March 2018, the USTR found in the affirmative, and the president proposed tariffs, called for a WTO case, and recommended investment restrictions. Since then we have seen a drawn-out back and forth use of high U.S. tariffs against China and retaliation on U.S. goods by the Chinese. On January 15, 2020, the United States and China came to a Phase 1 agreement. This accord calls for US$200B of purchases by China of U.S. agricultural, manufactured, service, and energy products. It also calls for greater commitments to intellectual property protection, stopping forced technology transfer, and no currency manipulation.

In terms of causal factors, there has been a structural change at the overall security and economic levels. China has increasingly moved toward becoming a peer strategic U.S. competitor, driven by its economic success, allowing it to devote increasing expenditures to the military. Following China's 2001 inclusion in the WTO, its rapid export growth began has led to a rapid increase in its GDP.

At the domestic level, the United States has witnessed a disappearance of manufacturing jobs, due in part to the rapid increase of Chinese imports into the U.S. market.[22] Often with U.S. companies located in China leading the charge, this domestic change in employment patterns has eroded the political consensus for free trade in the United States. The other aspect of the domestic political economy of trade concerns industrial policy and technology transfer.

The Trump administration is clearly seeking to build an explicit ideological justification to its proposed linkage between security and trade. This linkage has been driven in part by the work of Peter Navarro, who had been writing about the "China threat" for over a decade before this conflict. His work found a ready audience in Trump, who had long complained about the U.S. trade deficit with China and unfair currency manipulation. This is similarly evidenced by recent administration reports. For example, the U.S. Department of Defense recently commissioned a report titled "Assessing and Strengthening the Manufacturing and Defense Industrial Base and Supply Chain Resiliency of the United States." The report systematically identifies all possible "dangers" to the U.S. supply chain by Chinese activity, and points to U.S. reliance on China as a weakness for U.S. military defence.

Peering into the Future

The changes in U.S. trade policy away from multilateralism to a host of unilateral, bilateral, and minilateral accords have been many years in the making. The current confluence of systemic, domestic, and ideational factors does not indicate a quick turnaround—even if a new president comes to power after this year's election. At the systemic level, we are likely to continue to see a movement toward continued overall bipolarity. The anomaly in the current epoch is, of course, that China is "part" of the U.S.-created trading order, in contrast to the Cold War with the Soviet Union. But given security bipolarity, this is unlikely to last. The COVID-19 pandemic has only exacerbated concerns about excessive dependence on China. At the domestic level, protectionist pressures continue, and U.S. multinationals have increasingly been disaffected by their concerns about forced intellectual property transfers to Chinese firms. At the ideational level, many large U.S. multinational companies have been following the Pied Piper of the Chicago school in worshipping at the altar of global efficiency. Yet, as has now become painfully obvious, diversification and security of supply are important strategic considerations. Such practical considerations, of course, carry little weight with ivory tower economists, buried in their formal models, who have never had to run a company in the real world.

What will be the impact of the changes in the three sets of variables? From my perspective, we are likely to see a move toward a bipolar trading order—if not a Soviet Cold War style system in trade with China in the immediate future—at least a significant disentangling of trade (and investment) relations, whether a Democrat is elected president in 2020 or whether Trump is re-elected. In terms of specific outcomes, similar to the Cold War, one could envision a Chinese-led trade and investment economic order in Asia, with additional forays into Latin America and Africa. In Asia, even before Trump was elected, China had already become the number one destination for many Southeast Asian and East Asian countries. The recent Belt and Road Initiative points to this growing emphasis on securing both trade and investment in the Asian region and beyond. With respect to Latin America and Africa, for over a decade the Chinese have sought to secure raw materials while at the same time selling their manufactured exports in these previously untapped markets.

For the United States, a focus on North America, Europe, and parts of Latin America would provide a counterpoint to China's trade and investment efforts. Trade and investment competition with China will be likely. With the UK leaving the EU, a bilateral agreement between the United States and the UK would appear to be in the cards. Ironically, given the "new" bipolarity, one could expect the United States—at least from an overall systemic perspective—to be more sympathetic to its allies than it was during the Cold War with the Soviet Union. Yet despite what might seem to be an obvious emphasis for the United States on North America, Latin America, and Europe, Trump's policies have also targeted countries in those regions, albeit not to the extent of the protectionist measures against China. This is likely to change over time under any future administrations as we move into a "Colder War." While we cannot see the full contours of the future trading order, there is little doubt that moving from the current global economic order to a bipolar structure will lead to wrenching shifts in corporate and national strategies.

Notes

[1] Vinod K. Aggarwal, Robert Keohane, and David Yoffie, "The Dynamics of Negotiated Protectionism," *American Political Science Review* 81, no. 2 (June 1987): 345–66.

[2] Vinod K. Aggarwal, *Liberal Protectionism: The International Politics of Organized Textile Trade* (Berkeley: University of California Press, 1985).

[3] Stephen D. Krasner, *Defending the National Interest: Raw Materials Investments and US Foreign Policy* (Princeton, NJ: Princeton University Press, 1978). This was argued by Baran & Sweezy, Magdoff, and others from a Marxist lens with a different focus.

[4] Robert Baldwin, "The Changing Nature of US Trade Policy since World War II," in *The Structure and Evolution of Recent US Trade Policy* (Chicago, IL: University of Chicago Press, 1984): 11–13.

[5] William Jr. Diebold, "The End of the I.T.O.," Essays in *International Finance* 16 (Princeton, N.J.: Dept. of Economics and Social Institutions, Princeton University, 1952).

[6] Aggarwal, Keohane, and Yoffie, "The Dynamics of Negotiated Protectionism," which discusses why this slide did not occur.

[7] Susan Aronson, "How Cordell Hull and the Postwar Planners Designed a New Trade Policy," *Business and Economic History* 20, (1991): 171–79.

[8] John Gerard Ruggie, "Multilateralism: The Anatomy of an Institution," *International Organization* 46, no. 3 (Summer 1992): 561–98.

[9] Aggarwal, *Liberal Protectionism*.

[10] This strategy was advocated by the Peterson Institute of International Economics.

[11] Vinod K. Aggarwal and Simon J. Evenett, "The Transatlantic Trade and Investment Partnership: Limits on Negotiating behind the Border Barriers," *Business and Politics* 19, no. 4 (December 2017): 549–72.

[12] Sonia Aggarwal and Vinod K. Aggarwal, "The Political Economy of Industrial Policy" (September 2016), BASC Working Paper.

[13] Vinod K. Aggarwal and Simon J. Evenett, "A Fragmenting Global Economy: A Weakened WTO, Mega FTAs, and Murky Protectionism," *Swiss Political Science Review* 19, no. 4 (December 2013): 550–57. Note that in Asia, efforts to promote a mega-FTA known as the Regional Comprehensive Economic Partnership (RCEP) are still underway.

[14] "U.S. National Security Strategy: Ignite a New Era of Global Economic Growth through Free Markets and Free Trade," U.S. Department of State Archive, https://2001-2009.state.gov/r/pa/ei/wh/15427.htm.

[15] Vinod K. Aggarwal and Simon J. Evenett, "The Transatlantic Trade and Investment Partnership: Limits on Negotiating Behind the Border Barriers," *Business and Politics* 19, no. 4 (December 2017).

[16] "The Case for U.S. Trade Leadership: The United States Is Falling Behind," *Business Roundtable* (February 2001).

[17] Laura D. Andrea Tyson, "What Really Sabotaged the Seattle Trade Talks?" *Business Week* (February 7, 2000): 26.

[18] "Asian Trade: The Noodle Bowl," *The Economist* (September 3, 2009), https://www.economist.com/asia/2009/09/03/the-noodle-bowl; For a critique of competitive liberalization, see Vinod K. Aggarwal, "The Political Economy of a Free Trade Area of the Asia-Pacific: A U.S. Perspective," in *An APEC Trade Agenda? The Political Economy of a Free Trade Area of the Asia-Pacific*, eds. Charles E. Morrison and Eduardo Pedrosa (Singapore: ISEAS Publishing, 2007): 37–72.

[19] Alexia F. Campbell, "Trump's New Trade Deal with South Korea, Explained," *Vox.Com* (September 25, 2018), https://www.vox.com/2018/9/24/17883506/trump-korea-trade-deal-korus.

[20] "USMCA Is Not The Magnificent Trade Deal Trump Says It Is," *Forbes* (October 8, 2018), https://www.forbes.com/sites/johnbrinkley/2018/10/08/usmca-is-not-the-magnificent-trade-deal-trump-says-it-is/#4bea8e74054d.

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[22] David H. Autor, David Dorn, and Gordon H. Hanson, "The China Syndrome: Local Labor Market Effects of Import Competition in the United States," *American Economic Review* 103, no. 6 (October 2013): 2121–68.