GETTING AMERICA BACK IN THE GAME: A MULTILATERAL PERSPECTIVE

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A TACIT PROJECT PAPER

A global conversation on how friends of multilateralism around the world can engage the new US administration

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The Trump administration forcefully and explicitly undermined multilateral economic cooperation. This could not have come at a worse time. The world is facing two immediate and era-defining challenges in 2021: the global pandemic, and the global recession. Equally important is the need for multilateral cooperation on climate and the environment. Tackling these challenges will require constructive engagement of all the world’s largest economies. How should nations who support multilateralism help get America back to supporting, strengthening, and improving a fair, rules-based trading system that provides good jobs, rising living standards, and prosperity for all? On the current trajectory, the answer to that question seems destined to rely on bilateralism. We argue that bilateralism is not the right way to spark multilateralism. We suggest that there is a bigger, bolder, broader, more multilateral pathway to a reinvigorated international economic cooperation. The plan has two pillars: 1) working together, and 2) formulating initiatives as ‘trade tracks’ in the broad portfolio of foreign policy and climate policy initiatives.
Multilateral economic cooperation was struggling in recent years, but some progress was being made. In December 2017, trade ministers from economies accounting for most of world trade announced new, WTO-based initiatives. The focus was on electronic commerce, investment facilitation, and micro, small and medium size enterprises. Ministers also launched the “Buenos Aires Declaration on Women and Trade”. The momentum in multilateralism cooperation halted abruptly and deteriorated sharply just two months later.

From March 2018, the Trump administration unilaterally imposed tariffs on a rapidly expanding list of products and partners. While China was a key target, this was not a US-China trade war; it was a broader assault on multilateralism. Tariffs were imposed on US military, economic, and strategic allies right from the start – and the first tariff volleys fell more heavily on them than China. The Trump administration explicitly and purposefully embraced unilateralism and denigrated multilateralism in multiple forums.

America’s trading partners quickly retaliated but they did not join the US’s abandonment of multilateralism. Rather, they continued, and still continue to pursue economic cooperation – leaving the US on the sidelines. Canada and the EU progressed their Comprehensive Economic and Trade Agreement. Canada and the EU brought their Comprehensive Economic and Trade Agreement provisionally into force in September, 2017, and Japan shepherded a renegotiation of the Trans-Pacific Partnership (TPP) that was signed (without the US) in March 2018 in the form of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). In addition to setting regional rules in the Asia-Pacific region, it greatly deepened economic cooperation and liberalised trade between Canada and Japan, and Mexico and Japan. Then the EU and Japan deepened their economic cooperation in July 2018 with an Economic Partnership Agreement, and then Canada and the EU brought their Comprehensive Economic and Trade Agreement into force. Most recently, the Regional Comprehensive Economic Partnership (RCEP) was signed by 15 nations including three trade giants – China, Japan, and South Korea.

From 2019, the focus of the US war on trade shifted increasingly to China. While the tariffs between the US and its traditional allies remained in place, most of the new US tariffs and sanctions were placed on China, and China retaliated. This had global repercussions. As the two countries are the first and second largest traders in the world, the cycle became a dominant feature of the global economic system – and a serious blow to a decades-long tradition of multilateral cooperation.
A FRAGILE, COMPLEX WINDOW OF OPPORTUNITY

The outcome of the US presidential election creates a window of opportunity. This opportunity, however, is fragile and complex. President-elect Biden clearly views restoration of multilateralism and American leadership as core to his administration. This effort, however, will not involve a return to the traditional style of US leadership based on a trade-liberalising agenda. There are very clear, very strong reasons for this.

For decades, automation and globalization have spurred productivity gains and lowered prices for American consumers, but they have also displaced workers and disrupted communities. In the absence of an effective safety net or comprehensive adjustment assistance, the disruption fell directly on the shoulders of American workers, and their families and communities.

The fallout shows up as social and economic ills that are persistent and widespread in America. For three decades – during Republican and Democratic administrations alike – US middle-class incomes have stagnated while socio-economic ills have spread. Globalization always means more opportunities for some and more competition for others. In the US, a critical segment of the population has come to see globalization as mostly ‘more competition,’ and unfair competition at that. The decades of disruption-without-assistance is now a decisive feature of the American political landscape. It closes the door on business-as-usual trade policy.

Deeply in-tune with this reality, President-elect Biden seems unlikely to return to old-style US leadership on trade and trade liberalisation. In speech in July 2020, he said: “Our trade policy has to start at home, by strengthening our greatest asset – our middle class,” and went on to talk about skills, healthcare, R&D, roads and bridges, broadband, and taxes. When President-elect Biden got back to trade, he laid it out in plain English:

“there’s no going back to business as usual on trade. We need new rules, and a new process that has the voices of all stakeholders at the table – including leaders representing labor and the environment.”

PRESIDENT-ELECT BIDEN, JULY 2020
Katherine Tai, the Biden administration’s designate for the post of United States Trade Representative, connected this new attitude to the concerns of citizens:

“the trends in globalization over the past couple decades have ... come to a crossroads where there are serious questions being asked about the wisdom of the policies, whether these policies still serve the public interest. ... [USMCA] was the first attempt to revisit or reimagine how our trade policies, how our globalization policies can be modified and meet with more robust support, not just with the Congress, but the Congress as a proxy with the American people.”

President-elect Biden has shut the door on business-as-usual trade policy but equally he shut the door on the Trumpian “America first, America alone” approach that has done so much damage to multilateral cooperation. As Biden put it, “We must negotiate from the strongest possible position. On our own, we represent about one-quarter of global GDP. When we join together with fellow democracies, that number doubles.”

On Biden’s campaign website (joebiden.com), the thought is developed in more detail. “Biden will use this substantial leverage to shape the future rules of the road on everything from the environment to labor to trade to transparency, non-proliferation to cyber theft, and data privacy to artificial intelligence, so they continue to reflect democratic interests and values—America's interests and values.” Notably absent are the words ‘trade liberalisation’ and ‘trade agreements’.

This domestic reality is pivotal. It means that President-Elect Biden’s trade policy will be much less about trade – signing trade agreements and removing trade barriers – than it was in pre-Trump administrations. As far as the rest of the world is concerned, the critical elements of the new administration’s preferences concern its wish to “restore American leadership abroad.” To quote joebiden.com, the Biden plan includes: “A blueprint to repair the damage wrought by President Trump and chart a fundamentally different course for American foreign policy for the world as we find it today—and as we anticipate it will be tomorrow.”

So traditional trade liberalization is out, but does that mean trade policy will be ignored by the new administration?
WILL BIDEN IGNORE TRADE MULTILATERALISM?

The answer, we would argue, is ‘no’. From a practical standpoint, actions on trade and investment must be part of “restoring American leadership abroad” – even if they eschew market-opening deals.

This holds for two very plain reasons.

First, actions are necessary to undo the damage that the Trump administration caused to America’s economic, strategic, and military allies.

Second, mutually advantageous trade and investment flows are and always have been a critical underpinning of multilateral cooperation on almost any issue. Economic cooperation is a glue that helps hold together coalitions on broader forms of cooperation.

The conclusion of this line of thinking is simple. Any restoration of multilateral economic cooperation involving the US must come as a ‘trade track’ in American foreign policy and American climate policy – not a return to business as usual.

This conclusion is reenforced by practical considerations. President-elect Biden’s trade leadership team may not be confirmed by the Senate before Spring or Summer 2021, so addressing the most pressing trade matters is likely to fall to Biden’s foreign policy and environment teams.

On the bright side, members of Biden’s foreign policy team including, Secretary of State designate Antony Blinken, have plainly and cogently argued for advancing and defending US interests by reigniting US-led multilateral cooperation on many issues, including international economic cooperation.

The election of Joe Biden offers an opportunity to reignite win-win cooperation, but it is not an opportunity that is guaranteed to lead to success. How best to move forward?
How should nations who back multilateralism help get the US back to supporting, strengthening, and improving a fair, rules-based trading system that provides good jobs, rising living standards, and prosperity for all?

On the current trajectory, the answer to that question seems destined to rely on bilateralism. Nations across the world are strategizing about how they can persuade the Biden administration to pay attention to their favourite issue, and to redress the bilateral harm done by President Trump’s trade policy. This is normal and inevitable – but is it the best way forward? We don’t think so.

Bilateralism is not the right way to spark multilateralism. We suggest that there is a bigger, broader, more multilateral pathway to reinvigorating international economic cooperation. The plan has two pillars:

1. working together, and
2. formulating initiatives as ‘trade tracks’ in the broad portfolio of foreign policy and climate policy.

Working together means forming a group of like-minded nations, large and small, to deliberate and develop constructive and pragmatic initiatives that strengthen rules-based trade. The initiatives have two guardrails. They must align with Biden administration priorities and sensitivities, and they must advance multilateralism without crossing the redlines of any of the members.

History is full of examples of such groups. We have in mind a small group of economies from all regions and different levels of development. It would be convened to address specific challenges to multilateralism that involve trade and investment broadly defined. It would develop initiatives to help address the world’s most pressing problems.

The group would work together on specific proposals and issues in a flexible and non-institutional setting. It could start with proposals for policy packages that address the world’s two immediate challenges: the fight against the global pandemic, and the fight against the global recession.
The group should be transparent with non-members. The group’s initiatives would be aspirational. But ‘aspirational’ can work when it addresses a problem that most nations want solved. For example, the Trans-Pacific Partnership started life as an aspirational policy initiative of four small nations that didn’t do much trade with each other. And yet it proved to be a focal point that led, after a few twists and turns, to a megaregional agreement (the CPTPP). It worked since many nations around the Pacific realised that the hundreds of bilateral deals created a mess that made it unnecessarily hard to do business in the area (the so-called ‘noodle bowl’ effect).

Often in the past, American proposals on trade and trade rules have been similarly successful by creating a rallying point for coordination. And it has worked among a number of like-minded countries in the so-called “Ottawa Group.”

Another model of working with the US is the Trilateral Meeting of Trade Ministers. The Trilateral, with the US involvement at its core, has been dedicated to upgrade the global trade rules to level the playing field by addressing state subsidies and forced technology transfers. Although it lacks global representation from different levels of development, the Trilateral showcases the potential for cooperation among the like-minded countries with the US involvement and out reach to other countries in the rule-making areas.

The question of the membership of a caucus of likeminded countries committed to working together has no obvious answer; it is an intensely political issue. We can only suggest that it needs to be large enough and diverse enough to ensure the key global perspectives are represented in the deliberation, but small enough and homogenous enough to be able to come to rapid agreement.

If the way forward is to get ‘trade tracks’ added to the administration’s foreign policy and environment policy, what might be in these trade tracks?
TRADE TRACKS IN FOREIGN POLICY

While trade cannot be the focus of multilateral efforts to rekindle international cooperation in the short- and medium-term (given Biden’s stance), trade has to be part of it. The first phase of the Trump Administration's war on trade offended partners that have traditionally supported the US in its de facto leadership of an open and rules-based multilateral system. In particular using the 'national security' justification for slapping tariffs on steel and aluminium from NATO allies was, and still is viewed as particularly egregious, if not downright insulting.

While we judge that nations will be patient with the new Administration, there is no doubt that some of the Trump trade actions ruined the mood when it comes to cooperation more generally. Even if the offending measures are not removed immediately and unilaterally, the US will have to provide a plan for removing them. Since studies have shown that many of these policies have actually harmed the competitiveness of American manufacturing and cost American jobs, adding this plan to a Biden foreign policy strategy would seem to be natural.

In short, restoring multilateral cooperation means restoring trust. Several Trump-era policies continue to ruin the spirit of collaboration with otherwise like-minded US partners, so addressing these irritants is a topline task for the Biden’s foreign policy team.

US Administrations tend to prioritize policies in terms of Day-One actions, and First-100-Day actions. As a reality check on the idea of adding trade tracks to Biden Administration actions, we list some concrete ideas in this format.
THE DAY-ONE FOREIGN POLICY AND CLIMATE POLICY PACKAGE

Trump damaged America’s interests in ways that Biden is planning to reverse on ‘day one’. The package, as discussed to date, includes re-joining the Paris climate accord, re-joining the World Health Organization (WHO), and calling a NATO summit. Why not add a trade track?

The goals of fostering multilateralism and restoration of trust would be advanced by removing the Trump administration’s block on the appointment of the World Trade Organization (WTO) Director-General. The consensus candidate, Ngozi Okonjo-Iweala, was unexpectedly blocked by the Trump Administration during the height of the US Presidential Campaign. She is a safe pair of hands and is well-known - having been number two at the World Bank from 2007 to 2011.

She served two terms as Finance Minister of Nigeria, has been Board Chair of ‘Gavi’ (The Vaccine Alliance) since 2016, and she is a US citizen. Removing the US block would allow her rapid appointment to this body which is critical to restoring multilateral economic cooperation at the global level.

Rally the World to Address the Existential Climate Crisis: The Biden administration will rejoin the Paris Climate Accord on day one and lead a major diplomatic push to raise the ambitions of countries’ climate targets.

JoeBiden.com on restoring american leadership
In pursuit of the Biden administration’s foreign policy goal of restoring American leadership abroad, many Trump administration policies will be reversed. Verbal attacks on NATO allies and threats or orders to withdraw US troops are likely to cease. The motley crew of US ambassadors will be replaced by more capable appointees. There will naturally be a trade policy element to this renewal of alliances. This could involve reversing tariffs that the US unilaterally imposed – and the retaliatory tariffs they provoked – as well as a promise to cease the practice of continually threatening new tariffs.

Divergences on trade, technology, privacy, food standards, and taxation will not go away. And the list is long. After all, international trade is really just business done across countries and doing business leads to conflicts. Where the Trump administration encouraged and even revelled in conflict, the door is now open to more traditional reconciliation and resolution modalities. Using existing mechanisms or instituting new processes to address the conflicts can help rebuild trust and fortify cooperation.
Leading multilateral cooperation on the fight against the pandemic is sure to be part of the new administration's 100-day plan, because the disease will not be fully vanquished anywhere until it is defeated everywhere. Cooperation is needed on medical and logistic fronts. Key elements will address the production and distribution of vaccines, the scaling up of medical capacities and the strengthening surveillance, early detection, and information sharing mechanisms.

There must also be an economic track to this cooperation. Trade and investment policies will very naturally be part of it. The massive export surge in medical equipment observed in 2020 has helped protect millions of medical staff around the world from infection, but in the early days trade policies hindered progress. To avoid similar problems in the future, multilateral cooperation could embrace a truce of the type proposed by Singapore and New Zealand on 15 April 15 2020 in their "Declaration on Trade in Essential Goods for Combating the Covid-19 Pandemic". This was mirrored by members of the Ottawa Group (June 15, 2020). This implements a pledge to impose no tariffs or export restraints on key medical supplies during the pandemic.

Other ideas for ‘trade track’ elements include:

i) committing to heightened transparency on policies affecting the trade and production of medical goods,

ii) creating an information clearinghouse for medical products that monitors market conditions and identifies supply and logistic vulnerabilities (as the Agricultural Market Information System, AMIS, does for agricultural goods), and

iii) creating a consultation mechanism for rapid problem solving and dispute resolution concerning trade in pandemic-linked medical goods. Some of these actions may involve the participation of the WHO, which President-Elect Biden is committed to re-join.
Recession-fighting is a task dealt with primarily at home, but some matters require international cooperation. There are some trade and investment matters in this list.

After the 2008 Global Financial Crisis, G-20 leaders made a commitment to keep markets open as a way of stimulating economic activity by avoiding unnecessary uncertainty. At this year’s G20 Summit, the commitment was far less pointed. Reversing this attitude would help avoid export and investment-hindering uncertainty. There is also a finance element of this.

Given the recession has dampened tax receipts just as the disease has forced heightened government expenditure, debt in many nations has and will continue to rise. A widespread debt crisis in the next couple of years could slow or reverse economic recovery in many parts of the world and thus, indirectly, in all parts of the world. Debt-related financial cooperation is thus likely to be part of the renewed multilateral cooperation. Again, a trade track would very naturally be part of this.

Many of the international organizations established after World War II need reboots, updates, or reforms. The WTO certainly falls into this category. As part of a broad effort to update multilateralism’s institutional foundations, like-minded economies could develop proposals that layout pathways for reform.

From the first 100-days perspective, this is mostly a matter of starting a process of reflection.
TRADE TRACKS IN CLIMATE AND ENVIRONMENTAL POLICY

The mainline climate agenda, as set out in the The Paris Agreement of the United Nations Convention on Climate Change in 2016, deals with actions aimed at keeping global warming below 2 degrees Celsius. As with the Montreal Protocol, trade policy may eventually be part of this agenda, but such massive policy changes are not likely in the first 100-days of the Biden administration. There are, by contrast, two ‘shovel ready’ pro-environment projects already underway.

The first is the Fish Subsidies Negotiations that are ongoing in the WTO. Finalizing these would be a good and very concrete starting point. It would show that countries working together can make real progress in real time.

There is a second WTO-linked negotiation – the Environmental Goods Agreement. The ongoing talks, which have been stalled by seemingly small issues (small compared to the importance of climate and environmental goals), seek to eliminate tariffs on environment-related products. And this is not a fringe project; the participating economies account for the majority of trade in the products concerned. The initiative is also firmly multilateral in that the market opening would be extended to the entire WTO membership.

Finishing these talks would demonstrate real progress on two key element of the Biden administration’s agenda which are widely shared by nations around the world - all while demonstrating leadership and restoration of faith and trust in mutually advantageous multilateral cooperation.

The first element concerns the environment aspects of the "build back better" approach. Protecting the environment and slowing climate change will create new jobs and foster innovation. It would lower the costs of environmental protection and level the field for manufacturers. Many jobs will be created in pro-green industries. Signing an Environmental Goods Agreement would hasten this by creating opportunities in sectors like wind turbines, water treatment filters, and solar water heaters. Second, the agreement would advance environmental and climate goals by generating clean and renewable energy, improving energy efficiency, controlling air pollution, improving waste management, and much more.

In short, the Environmental Goods Agreement would be a good model for showcasing how multilateral efforts to facilitate environment friendly trade and investment could address global climate change priorities.
THREE 'BUCKETS' OF TRADE ISSUES

The Biden administration’s priorities on trade and investment are widely shared globally – unlike those of the Trump administration. To round out this paper, we list a fuller tally of trade issues that should, sooner or later, be addressed in various cooperative formats.

For convenience, we put them into three ‘buckets’:

Bucket 1: Issues that need almost immediate attention.

Bucket 2: Issues related to critical but less immediate matters

Bucket 3: Issues that are ‘under the political radar’ and so may be advanced on a technocratic basis without trade liberalization per se.

Bucket 1: Issues for Immediate Attention

In the first bucket, we argued above that immediate action should be taken by the Biden administration on unblocking the WTO DG appointment. Immediate attention is also needed on the national-security justified metal tariffs – and these quite naturally fall under the direction of the Biden foreign and security team.

Developing a strategy for addressing the China Challenge is surely in the first bucket for the Biden administration, but immediate attention need not lead to immediate results or overt policy actions. The January 2020 Joint Statement of Japan, the US and EU showed that trade distorting policies and practices poses challenges to many nations, and that cooperation is possible. Call for a structured dialogue with China will be required down the road.

In the Indo-Pacific, in particular, the commitment by President-elect Biden to set rules of the road is tested, while Chinese President Xi Jingping expressed interest in joining the CPTPP. The Biden foreign and security team needs geopolitical and strategic perspectives for closely working with other like-minded countries in the Indo-Pacific region.
Bucket 2: Critical but less Immediate Issues

These are things that are critical but less pressing. These include long-running conflicts among major trading partners such as the Airbus-Boeing disputes, discussions over a digital services tax and the like. These are important to settle but they are already embedded in existing multilateral processes and institutions that have been dealing with similar conflicts for decades.

Bucket 3: Issues 'Under the Political Radar'

The world of trade and investment cooperation is filled with a myriad of issues and conflicts. Many of these are really just the sign of businesses doing business in multiple jurisdictions. Others turn on fairly technocratic matters that rarely make it onto any but the most tightly focused political radars.

In this category we would list many of the reforms at the WTO. The most pressing is reform of its Appellate Body. This is not an issue where a 'quick win' is possible because the matters involved are complex and politically charged. Yet there is a clear appetite for reforms and some exchange of views has already taken place. These were blocked by the Trump administration’s obstructionism. With US support, a group of like-minded WTO members could reinvigorate a deliberative process aimed at identifying the necessary reforms. This demarche would go a long way to restoring trust in the multilateral, rules-based trade system, and in America’s interest in the system – a system that it led from 1947 until recently.

Lastly, there are a series of talks – called the Joint Statement Initiatives -- that deserve attention from the new administration. The one on e-commerce is quite advanced and given the pandemic-linked explosion in online commerce – both domestic and international – prioritising progress in this sort of rule-setting would seem to be a natural early focus for our idea of “working together, working with America”.

Engaging on this on-going reform agenda would be an excellent way for the Biden administration to signal its reengagement with multilateralism.
FINAL THOUGHTS

Multilateralism is broken. Fixing it will require active US cooperation. A window for such cooperation was opened by the election of Joe Biden. Yet given the views of the President-elect, this window is both fragile and complex when it comes to trade. Restoration of multilateralism and US leadership is core to his administration’s goals, but this will not involve a traditional, trade-liberalizing agenda. Nevertheless, the US cannot restore its moral, diplomatic, and economic leadership without addressing the pressing trade conflicts that the Trump Administration created with like-minded nations.

In this thought-piece we have set out a multilateral perspective on reigniting international economic cooperation. Our key messages are twofold: working together, and working via foreign policy and climate agendas. Working together means that key partners should work together – rather than just approaching the US bilaterally.

Working via a foreign policy and climate agenda means developing ‘trade tracks’ that naturally fit into the Biden administration’s goals that are widely shared around the world. Since the Biden administration is not going to return to the traditional trade-liberalization-centric approach that has been the core of US trade policy for decades, the best way forward is to fold trade initiatives into broader foreign policy and climate packages.

In closing, we stress that none of our ideas should be viewed as being against any particular nation, or excluding any country. The Trump administration created an atmosphere of hostility, distrust, and acrimony. This toxic atmosphere has stood in the way of adapting economic cooperation among all nations to the economic and political realities of the 21st century.

We believe that getting the US back in the multilateral game is the sine qua non of fixing this toxic atmosphere. It is the first step to creating the conditions that support and strengthen “a free, fair, inclusive, non-discriminatory, transparent, predictable, and stable trade and investment environment” that provides good jobs, rising living standards, and prosperity for all nations.
[1] The Declaration commits participants to temporarily eliminating all customs duties and all other duties and charges of any kind on certain medical goods, refrain from imposing export prohibitions or restrictions on the same goods, and expedite and facilitate the flow and transit of such products. This listed of goods includes items like vitamins, antibiotics, medicines, vaccines, dressings, pharmaceutical goods, soap, washing and cleaning preparations, disinfectants, prepared culture media, surgical gloves, textiles, laboratory glassware, sterilizers, medical instruments and appliances, therapeutic respiration apparatus, equipment related to x-rays, and thermometers. Also see Espitia, Alvaro, Nadia Rocha, and Michele Ruta (2020). “A pandemic trade deal: Trade and policy cooperation on medical goods,” Chapter 14, in Baldwin and Evenett (eds), 2020, Revitalising Multilateralism Pragmatic Ideas for the New WTO Director-General, CEPR Press. https://voxeu.org/content/revitalising-multilateralism-pragmatic-ideas-new-wto-director-general

[2] “Ministers instruct officials to: 1) ensure any measures introduced in response to COVID-19 are promptly notified in accordance with relevant WTO requirements; 2) support efforts by the WTO Secretariat to collect and share information and best practices on trade-related measures taken in response to COVID-19; 3) discuss the principle of “targeted, proportionate, transparent, temporary and consistent with WTO rules”; and 4) lead by example and withdraw or end any trade restrictive measures introduced in response to COVID-19 as quickly as possible.”

[3] “Supporting the multilateral trading system is now as important as ever. We strive to realize the goal of a free, fair, inclusive, non-discriminatory, transparent, predictable, and stable trade and investment environment, and to keep our markets open. We will continue to work to ensure a level playing field to foster an enabling business environment. We endorse the G20 Actions to Support World Trade and Investment in Response to COVID-19.”