

Trade Policy Priorities for the Biden Administration

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National Economic Education Delegation

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- One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

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- NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.

- **NEED Presentations**

- Are **nonpartisan** and intended to reflect the consensus of the economics profession.



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Almost post-mortem on Trump policy

A caveat: these opinions are mine only and do not reflect official policy positions.

A brief review of major Trump Administration trade actions:

- Pulled out of Trans-Pacific Partnership on Jan 21, 2017.
- Imposed steel and aluminum tariffs against nearly all suppliers in 2018.
- Renegotiated NAFTA into USMCA.
- Continued US refusal to permit appointment of judges to the appellate body of the World Trade Organization (WTO).
- Launched the US-China trade war.

Some of this was aimed at real problems but the outcomes were poor overall:

- Sacrificed economic leadership in the Asia-Pacific region.
- Raised concerns about US reliability among allies.
- The “Phase One Agreement” with China achieved little on the underlying structural issues and resulted in “managed trade”.
- The WTO continues its slide toward irrelevance.

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“Building back better”

This review indicates that the Trump trade policy generated little tangible benefit but considerable architectural damage in the global trading system.

Biden’s challenge is then to begin the task of rebuilding a forward-looking, cooperative, and resilient system.

Following are four (of potentially many) priority areas to work on.

All these issues are complex, so this is just an overview.

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1. Short- to medium-term: reestablishing relationships with allies and addressing the “China problem”

Begin to unwind the remaining steel tariffs (and others) against Europe, Japan, South Korea, and other allies.

Coordinate with EU, Japan, and other major countries regarding how to induce China to start reforming its industrial and technology-transfer policies. Incorporating multilateral enforcement commitments would be considerably more effective than the Trump unilateral approach.

Reengage in the Asia-Pacific region by negotiating and joining an expanded trade agreement (TPP+) to offset China’s growing regional influence.

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2. Long-term (1): rebuild the effectiveness of the World Trade Organization (WTO)

What are the basic problems?

1. A requirement for consensus decision making has ended the ability to get multilateral trade agreements on critical issues, such as trade in the digital economy, data privacy, industrial subsidies, environment and trade, labor rights and trade, and financial regulation.
 - The likely solution: permit negotiations on open “plurilateral” agreements among like-minded countries to modernize the rules in such areas. That would effectively fragment the system but it seems necessary.
2. China (and increasingly the US and Europe) no longer want to be bound by the WTO’s rules limiting the use of industrial policy.
 - Solution: begin serious negotiations about reforming WTO rules on key structural issues, such as reducing the use of industrial subsidies where they cause unfair trade but permitting them where they are legitimate for economic development. Yes, that’s hard to do.
3. The dispute-resolution system is not functioning.
 - Why the US (and EU) distrust the system and stopped appointing appellate body judges.
 - Solution: reformulate the many legal gray areas in WTO rules in order to limit the discretion of judges to make law through decisions.

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3. Long term (2): trade and climate change

The trading system and policies to combat climate change have been on a collision course for a long time.

To greatly oversimplify, the trading system seeks to encourage free trade and investment. Disputes are confined to issues causing economic damage to firms.

But climate change is a “global cross-border externality” in which the damages relate to public health. Policy advocates seek to use trade policy to advanced mitigation efforts, despite economic costs.

A primary challenge is to make these two systems more compatible. How might this happen? Here are a few ideas:

1. Negotiations to reduce subsidies to the use of fossil fuels;
2. Recognition that carbon taxes and carbon-pricing systems are not violations of trade agreements.
3. Permit use of “border carbon adjustments” under transparent rules.
4. Tie the use of BCAs to transferring funds for financial and technical assistance

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4. Short and long term: prepare American workers for continuing technological change and globalization

The greatest failing of many US administrations and Congresses.

A great paradox: US public opinion is more enthusiastic about the benefits of trade than ever before, but lower-skilled and rural workers continue to be hurt.

The Trump Administration’s approach: higher trade barriers to protect US manufacturing. But this has been costly and ineffective.

A better (but much harder) approach: deal with the structural problems.

- Build a stronger social safety net.
- Make insurance and pension benefits more portable.
- Offer mobility assistance and retraining benefits.
- Invest in new educational delivery models and lifelong learning.
- Support regional development grants.
- Reinvest in public capital (infrastructure and knowledge).

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Is any of this
feasible?

All these priorities raise deep challenges that will require sustained thinking, effort, and negotiations.

There will be tough roadblocks to much of it on both sides of the political aisle.

But packaging this approach with rebuilding American productive capacity may pave the way for progress.

Thank you for listening.