

U.S. Trade Dilemma: Free or Fair?

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Trade is vital to the U.S. economy. In 1970, the sum of imports and exports was less than 12 percent of gross domestic product. By 2004, that figure had doubled to 24 percent. U.S. exports accounted for approximately 25 percent of economic growth during the 1990s, supporting an estimated 12 million jobs. From agriculture to manufacturing to technology to services, the U.S. economy needs international trade to prosper.

Despite trade's importance to America, U.S. trade policy seems like it is at a standstill. Both the Doha round of world trade talks and negotiation over the proposed Free Trade Area of the Americas are deadlocked. The legislative branch is putting enormous pressure on the Bush administration to punish China for its large bilateral trade surplus. President Bush's Trade Promotion Authority will expire in June 2007, and the political odds of its reauthorization are remote.

Why has U.S. trade policy ground to a halt? Shifts in domestic attitudes and world politics have combined to create one of the least hospitable environments for trade liberalization in recent memory. The most dramatic shift in opinion came from Americans making more than \$100,000 a year. According to the Program on International Policy Attitudes (PIPA), support in that income group for promoting trade dropped to 28 percent in 2004 from 57 percent in 1999. A September 2005 German Marshall Fund (GMFUS) survey revealed that 57 percent believe that freer trade destroys more American jobs than it creates, and 58 percent of Americans would favor raising tariffs for imported goods if it meant protecting jobs -- a higher number than in Germany, France, or Great Britain. Healthy majorities believe that trade primarily benefits multinational corporations at the expense of small businesses.

Three political facts of life have caused many Americans to shift their support from free trade to fair trade. (A recent Council on Foreign Relations' report, [U.S. Trade Policy, Free Versus Fair](#), outlines the costs and benefits of these two trade policy options.) First, during times of economic uncertainty, public suspicion of free trade policies explodes into public hostility. Inevitably, foreign trade becomes the scapegoat for business-cycle fluctuations that have little to do with trade. Second, it is particularly difficult to make the case for trade expansion during election years. Trade generates diffuse benefits at concentrated costs. Those who bear the costs are more likely to vote on the issue -- and make campaign contributions based on the issue -- than those who reap the benefits. Third, both advocates and opponents simultaneously inflate the importance of trade while framing the issue as a zero-sum game. Trade is both blamed and praised for America's various economic strengths and ills, even though domestic factors -- such as macroeconomic policy, fluctuations in the stock market, and the pace of innovation -- matter more for America's economic performance.

At the same time, the WTO has become a victim of its own success. Over the past forty years each successive round of GATT/WTO trade talks has taken longer to complete. The Uruguay round took seven years from start to finish; during that time, NAFTA was proposed, negotiated, and ratified. In the Doha round, China, India, and Brazil have created their own negotiating bloc, and African countries have exercised their voice as well. Some of these new players helped to sabotage the Cancun ministerial meeting in the fall of 2003. The larger developing countries have much greater market power than they did thirty years ago, and these economies all have dramatically higher growth rates than the United States, making it impossible to ignore their negotiating positions. It is simply much harder to reach a consensus with more than 150 countries participating in the process.

U.S. trade policy is at a crossroads between pursuing freer trade or fairer trade. A free trade approach would jumpstart Doha by cutting agricultural subsidies or allowing greater cross-border movement of foreign workers; pursuing free trade agreements with South Korea, India, or Japan if the Doha round cannot be restarted, and pledging an all-out political push for the renewal of TPA in early 2007. A fair trade approach would refuse to make further concessions in the Doha round of negotiations until developing countries and the European Union demonstrate a greater receptivity to American exports; halting bilateral free trade agreements with developing countries; and relying more on "managed trade" arrangements, unilateral trade sanctions, escape clauses and safeguard mechanisms to rebalance U.S. trade.

The free trade orientation provides a more coherent set of economic policies, but carries a significant political risk. Adopting a free trade orientation will promote economic growth, control inflation, and reaffirm U.S. economic leadership to the rest of the world. At the current moment, however, freer trade runs against the tide of public and congressional opinion -- the political price of this policy will be steep. The fair trade orientation provides a more popular set of policies, but carries a significant policy risk. Adopting a tough position on slowing down imports while boosting exports will resonate strongly with many Americans. Because almost any trade barrier can be advocated on grounds of fairness to some group, however, special interests can easily hijack this policy orientation. Internationally, such a policy will be viewed as an abdication of U.S. economic leadership. Slowing down imports will encourage other countries to erect higher trade barriers against U.S. exports. Any kind of global trade war would severely damage the American economy -- and American workers.

Free trade is less difficult to negotiate but more difficult to sell at home, while fair trade is more difficult to negotiate but less difficult to sell at home. Because of the current political climate, the choice faced by President Bush and his advisors is a daunting one.

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