# The Strategic Logic of Trade

## New Rules of the Road for the Global Market

*Michael Froman*

For much of the twentieth century, leaders and policymakers around the world viewed the strategic importance of trade, and of international economic policy more generally, largely through the lens of military strength. They believed that the role of a strong economy was to act as an enabler, supporting a strong military, which they saw as the best way to project power and influence. But in recent decades, leaders have come to see the economic clout that trade produces as more than merely a purse for military prowess: they now understand prosperity to be a principal means by which countries measure and exercise power.

The strategic importance of trade is not new, but it has grown in recent years and strongly reinforces the economic case for expanding trade. Over 40 years ago, the economist Thomas Schelling observed, "Broadly defined to include investment, shipping, tourism, and the management of enterprises, trade is what most of international relations are about. For that reason trade policy is national security policy." In a world where markets can have as much influence as militaries, any tension between the United States' national security priorities and its economic goals is more apparent than real. Still, in considering new trade agreements, Washington must first and foremost evaluate their economic merits. Trade deals must promote U.S. economic growth, support jobs, and strengthen the middle class.

Trade's contribution to the U.S. economy has never been more significant than it is today. Trade supports higher-paying jobs, spurs economic growth, and enhances the competitiveness of the U.S. economy. Last year, the United States exported a record $2.3 trillion in goods and services, which in turn supported around 11.3 million American jobs. Over the last

**MICHAEL FROMAN** is the U.S. Trade Representative.

five years, the increase in U.S. exports has accounted for nearly a third of total U.S. economic growth and, during the past four years, has supported 1.6 million additional jobs. Better yet, those jobs typically pay somewhere between 13 and 18 percent more than jobs unrelated to exports.

Moreover, trade plays a major role in attracting investors and manufacturers to the United States. The country offers a massive market, strong rule of law, a skilled work force with an entrepreneurial culture, and increasingly abundant sources of affordable energy. The Obama administration's trade policy seeks to make the United States even more attractive to investors by positioning the country at the center of a web of agreements that will provide unfettered access to nearly two-thirds of the global economy. As a result, the United States is already enjoying increased investment, attracting manufacturing jobs, and establishing itself as the world's production platform of choice. Companies of all sizes once again want to make things in the United States and export them all over the world.

For nearly seven decades, the global trading system has accomplished the goals of its lead architects, including U.S. statesmen such as Dean Acheson and George Marshall. It has brought jobs to American shores and peace and prosperity to countries around the world. But no one should take that system for granted. In recent years, tectonic shifts, such as economic globalization, technological change, and the rise of emerging economies, have reshaped the international landscape. As President Barack Obama remarked earlier this year, "Just as the world has changed, this architecture must change as well."

To help achieve that change, the Obama administration's trade agenda focuses on three strategic objectives: establishing and enforcing rules of the road, strengthening U.S. partnerships with other countries, and spurring broad-based economic development. Each of these objectives serves the overarching goals of revitalizing the global trading system, allowing the United States to continue to play a leading role in it, and ensuring that it reflects both American interests and American values.

## RULES OF THE ROAD

With some of the most innovative companies and productive workers in the world, the United States can compete in the global marketplace and win—if the playing field is level. The Obama administration has made enforcement of the rules governing trade a top priority, and every time the administration has brought a dispute before the World

Trade Organization and the WTO has made a decision, the United States has won. Preventing China from restricting access to rare-earth minerals and stopping Argentina from wrongly restricting imports of agricultural products—to cite just two examples—not only benefits U.S. workers, farmers, and businesses but also reinforces the rules-based trading system itself.

The Trans-Pacific Partnership presents an unprecedented opportunity to update the rules of the road. An ambitious and comprehensive trade agreement that the United States is currently negotiating with 11 countries in the Asia-Pacific region, the TPP represents a main pillar of the Obama administration's broader strategy of rebalancing toward Asia. Taken together, the parties negotiating the TPP represent nearly 40 percent of the world's GDP and account for roughly a third of all global trade.

This agreement would level the playing field of international trade by establishing the strongest environmental and labor standards of any trade agreement in U.S. history. For example, the United States is pressing other countries to address forced labor and child labor and to maintain acceptable working conditions. The United States has also broken new ground with proposals that would address illicit wildlife trafficking, illegal logging, and subsidies that contribute to dangerous overfishing. Rules limiting such activities would help ensure that trade remains sustainable and that its benefits are broadly shared. The TPP countries are also working to ensure fair competition between private firms and state-owned enterprises that receive subsidies or other preferences. And Washington is pushing to protect unrestricted access to the Internet and the free flow of data so that small and medium-sized businesses around the world will be able to access global markets efficiently.

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As the need for new rules has grown, so, too, has the difficulty of reaching agreement on the details. Emerging economies such as China and India have pressed for a stronger voice in international matters, but they have been reluctant to take on responsibilities commensurate with their increasing role in the global economy. Earlier this year, for example, a handful of countries led by India blocked the implementation of the WTO's Trade Facilitation Agreement, which seeks to eliminate red tape in border and customs disputes and therefore contribute significantly to economic activity, especially in developing countries. In this and other areas, the United States will continue to press ahead, working with those countries willing to adopt stronger rules and, in doing so, hopefully giving new momentum to the WTO's multilateral efforts.

## STRENGTHENING PARTNERS

Trade has played a leading role in many of the most important chapters of U.S. history, often as a tool for strengthening international partnerships and alliances. The best-known example of this occurred in the wake of World War II, when the United States provided more access to Western European countries and Japan than it received from them, in an attempt to speed their reconstruction and solidify their integration into an open, rules-based international order.

Trade also serves as an effective way to send signals to allies and rivals. Signaling was the primary motivation behind the United Kingdom's push for the trade agreement it signed with the United States in 1938, just before the outbreak of World War II. The British gained little economically, but the deal bolstered the appearance of Anglo-American solidarity. Similarly, signaling was as important as economics to the United States' first-ever free-trade agreement, which was concluded with Israel in 1985. If anyone doubts the strategic importance of trade, consider Russia's reaction during the past year to the prospect of Ukraine deepening its trade ties with the West.

The global trading system also provides avenues for peaceful competition and mechanisms for resolving grievances that might otherwise escalate. Over time, the habits of cooperation shaped through trade can reduce misperceptions, build trust, and increase cooperation between states on other issues—creating "an atmosphere congenial to the preservation of peace," as U.S. President Harry Truman put it in 1947, while making the case for the creation of an early international trade organization.

Given recent developments in Asia and Europe—tensions over the East China and South China seas, the crisis in Ukraine—the strategic implications of U.S. trade policy have rarely been clearer. For many of the countries that would be party to the TPP, the economic benefits of the agreement are further sweetened by expectations that the United States will become more deeply embedded in the region. And just as completing the TPP would underscore Washington's commitment to development and stability in Asia during a time of flux, finalizing the Transatlantic Trade and Investment Partnership (T-TIP) would send an unmistakable signal to the world about the strength of the U.S.-

European bond—a timely reminder, as the crisis in Ukraine has triggered deep unease across the continent.

The economic ties between the United States and its European trading partners are substantial: $1 trillion in trade each year, $4 trillion in investments, and jobs for 13 million American and European workers whose employment depends on transatlantic trade and investment. T-TIP aims to strengthen those already robust ties by better aligning the regulations and standards that the United States and European countries impose on firms—without compromising the environmental safeguards or health and safety measures that protect consumers on both sides of the Atlantic. From an economic perspective, T-TIP presents an enormous opportunity to increase trade, potentially grow the economies of the United States and its European partners by hundreds of billions of dollars, and support hundreds of thousands of additional jobs. And many in Europe believe that T-TIP will not only spur much-needed economic growth but also support efforts to reform European energy policies and create greater energy security.

## KEEP ON GROWING

U.S. trade policy aims not only to update the global economic architecture but also to expand it. In the postwar era, the United States has been a leader in providing market access to developing countries. More people now benefit from the global trading system than at any time in history. Unfortunately, however, what then UN Secretary-General Kofi Annan said at the beginning of this century still remains true: "The main losers in today's very unequal world are not those who are too much exposed to globalization. They are those who have been left out." The world's poorest countries still face significant challenges, but by encouraging good governance and sustainable growth, U.S. trade policy can help alleviate poverty and promote stability.

Trade cannot solve every development challenge, but it is a necessary part of any successful and sustainable development strategy. Trade fuels faster growth, stimulates investment, and promotes competition, which results in more jobs and more income for the poor. Growth and investment, in turn, make it easier for developing countries to finance antipoverty programs and improve public services. This virtuous cycle depends on a number of factors, such as strong institutions, the rule of law, sufficient infrastructure, and quality health care and education.

Foreign assistance plays a critical role in many of these areas as well, but over time, truly sustainable growth requires trade and investment.

The link between trade and development has never been stronger than in recent decades. Between 1991 and 2011, developing countries' share of world trade doubled and nearly one billion people escaped poverty. Some of the countries that were most engaged in trade, including many in Asia, saw the greatest progress in development, whereas countries that remained largely closed, including many in the Middle East and North Africa, generally saw substantially less progress. In the mid-1990s, foreign direct investment in developing countries surpassed the amount they received in foreign aid. And last year, for the first time in history, the value of trade between developing countries exceeded that between developing and developed countries.

Trade-led development serves U.S. interests by growing markets for U.S. exports and by preventing conflict. It is also an important expression of American values. U.S. trade policy supports greater competition, more participation in the market, and more rigorous labor and environmental standards. In doing so, U.S. trade policy advances broader definitions of international security, including human security and environmental security.

The United States' commitment to promoting development through trade is at the heart of the African Growth and Opportunity Act, which has opened U.S. markets to a wide array of African exports, including textiles, apparel, horticultural goods, and processed agricultural products. Adopted near the end of the Clinton administration, AGOA has become the cornerstone of U.S. trade policy with sub-Saharan Africa. From 2001 to 2013, U.S. imports covered by AGOA more than tripled, including a nearly fourfold increase in non-oil imports. During the same period, the amount of U.S. direct investment in sub-Saharan countries nearly quadrupled.

AGOA has supported hundreds of thousands of jobs in sub-Saharan Africa, creating economic opportunities that otherwise might not exist. The United States has benefited from the stability that has accompanied this increased prosperity, as well as from the market opportunities AGOA has created for U.S. firms. Since 2001, U.S. exports to the region have more than tripled, and last year, those exports supported nearly 120,000 American jobs. Africa—home to the world's fastest-growing middle classes and several of the world's fastest-growing economies—will likely continue to rise, economically and geopolitically, in the coming years. Still, there is much more to be done. The Obama administration has proposed not just renewing AGOA but also updating it to reflect changes within Africa and between African countries and their trading partners. Doing so would send a strong message to the world that the United States is deeply committed to Africa and to promoting broad-based development through trade.

## BUYING IN TO TRADE

The Obama administration's three strategic trade objectives—establishing and enforcing rules of the road, strengthening partnerships, and promoting development—all serve the greater goal of revitalizing the international economic architecture. Establishing and enforcing rules of the road will ensure that tomorrow's global trading system is consistent with American values and interests. Strengthening the United States' partnerships and alliances with other countries will protect that system and lay the foundation for pursuing broader mutual interests. Promoting broad-based, inclusive development will expand that system so that its benefits are both greater and more widely shared.

The economic foundation of the Obama administration's trade agenda is sound, and the strategic stakes of following through with it could not be higher. Given the current constraints on fiscal and monetary policies, there is no better source of growth than trade. As tensions rise in Asia and on the periphery of Europe, the strategic merits of the TPP and T-TIP become even clearer.

At the same time, Washington faces unprecedented constraints in crafting trade policy. The United States no longer holds as dominant a position in the global economy as it did at the end of World War II, and it must build trade coalitions willing to work toward consensus positions. Meanwhile, the economic struggles facing many Americans have fostered a sense of insecurity and skepticism about the benefits of trade.

Such concerns are legitimate, but too often they reflect a conflation of the impact of technological change and economic globalization with the effects of trade agreements. To help address these worries and better engage Congress, the public, and other stakeholders, the Obama administration has worked to make its trade agenda the most transparent in U.S. history, closely discussing trade issues and negotiations with small-business owners, nongovernmental organizations, and labor unions and holding more than 1,400 congressional briefings on the TPP alone. The Office of the U.S. Trade Representative consults with congressional committees on every proposal the United States makes during trade negotiations, and any member of Congress can review the negotiating texts.

These efforts have given unprecedented weight to public input and congressional oversight. Congress' involvement could be further enhanced and institutionalized by the passage of trade promotion authority, which would allow Congress to guide trade policy by laying out the United States' negotiating objectives, defining how the executive branch must consult with Congress about trade agreements, and detailing the legislative procedures that will guide Congress' consideration of trade agreements. At the same time, by ensuring that Congress will consider trade agreements as they have been negotiated by the executive branch, trade promotion authority would give U.S. trading partners the necessary confidence to put their best and final offers on the table. Trade promotion authority has a long, bipartisan history—stretching back to President Franklin Roosevelt and the U.S. Congress during the New Deal era—of ensuring congressional oversight while also strengthening the United States' hand at the international bargaining table.

## CHOOSE OR LOSE

Trade initiatives such as the TPP, T-TIP, and AGOA give Americans a chance to shape the global economy, rather than just be shaped by it. Increasingly, the rules-based, open trading system is competing with state-directed, mercantilist models. The United States is not alone in working to define the rules of the road in the Asia-Pacific, for example, and not all of the United States' competitors share Washington's commitment to raising labor and environmental standards, enforcing intellectual property rights, ensuring that state-owned enterprises compete fairly with private firms, and maintaining a free and open Internet. Failing to deliver on the Obama administration's agenda would mean missing an opportunity to create safer workplaces, a better environment, and healthier and more open societies. The failure to lead could spill into other domains as others filled the gap.

There is no doubt that it is in the interests of American workers, farmers, and ranchers; manufacturers and service providers; entrepreneurs and inventors for the United States to actively shape the global trading system and promote a race to the top, rather than engage in a race to the bottom. If the United States wants to strengthen its economic power and extend its strategic influence during uncertain times, Washington must make a decision: either lead on global trade or be left on the sidelines. There really is no choice.