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Time to Reset the U.S. Trade Agenda

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Introduction

Over the past three years, U.S. Trade Representative Katherine Tai and National Security Advisor Jake Sullivan have worked to articulate a "worker-centered" trade policy while arguing for a "new Washington consensus" in U.S. international economic policy that will foster global investment and cooperation on issues like climate and development.[1] Tai, Sullivan, and other U.S. officials have succeeded in laying out a vision for American industrial policy, one that has attracted hundreds of billions of dollars of announced investment in U.S. computer chip manufacturing and clean energy technology. Treasury Secretary Janet Yellen also has popularized the concept of "friendshoring"—the idea that U.S. allies and partners can benefit as multinational corporations diversify away from China.[2] This term first appeared in a 2021 White House report on supply chains.

But when it comes to the brass tacks of trade—trade deals, tariff lines, the paperwork that companies have to file at the border, and other mechanics—U.S. President Joe Biden's administration has not articulated a coherent agenda. At times, the administration has tried to use the specter of China's economic threat to generate support for trade deals. One notable example is its signature Indo-Pacific Economic Framework (IPEF), which is intended to strengthen economic relations between the United States and countries across the Pacific. But geopolitical arguments for deals are failing to carry the day. Last November, deep congressional skepticism and electoral concerns spurred the administration to indefinitely postpone the IPEF trade pillar, and it is unclear whether it will complete the work even after the 2024 election.

Former president Donald Trump, in his current campaign to return to the White House, does have a clear vision for trade: he has announced plans to deploy tariffs and other protectionist measures to support favored U.S. industries.[3] The architect of Trump's trade policy between 2017 and early 2021, former U.S. trade representative Robert Lighthizer, has argued that the United States should vigorously deploy tariffs and other trade restrictions both to protect U.S. industry and to force not only China, but a variety of European and Asian countries, to cease unfair trade practices.[4] However, a number of experts have raised concerns about the economic impacts of these policies as well as the risks they would pose to U.S. geopolitical relationships.[5]

Resetting America's trade agenda and developing a trade vision capable of drawing broad support across Washington is going to require the government to, as Steve Jobs would have said, "think different." Rather than treating trade deals as a geopolitical endeavor that the United States should suffer through to support America's allies and partners, or pursuing Trump's vision of simply reducing trade (the geopolitical argument), the United States should get back to a basic premise that has guided successful trade policy in the past—that policymakers can develop and promote trade policies that advance American economic interests as well as American geopolitical interests.

Given the nature of the economic challenges the United States currently faces, this approach will require policymakers to spend less time on the geopolitics and more time on the economics. That choice, in turn, will encourage a shift in the primary focus away from regional deals and toward narrower sectoral deals that address the problems of greatest concern to most Americans, such as climate, energy, and the looming artificial intelligence (AI) revolution. To actually solve those problems, the United States should be open to using a new set of tools in creating trade deals, including those related to financial instruments, development, and national security. Today's biggest challenges cannot be solved simply with market access and regulatory cooperation. The next chapter in American trade policy will need to entail new types of sectoral deals between the United States and key allies and partners on a set of issues that include climate and energy, supply chains, and AI and the digital economy.

The Rise of the Modern Trade Paradigm

Rebooting America's trade agenda first requires understanding why the protrade consensus that prevailed from the 1990s to the mid-2010s—the most recent era of significant U.S. trade dealmaking—broke down.

Since the end of World War II, the United States has undertaken successful rounds of trade dealmaking during periods when trade deals had both a clear geopolitical and a clear economic logic. In the late 1940s, in the aftermath of the war, the deal that fit both U.S. geopolitical and economic interests was the General Agreement on Tariffs and Trade (GATT). Geopolitically, American policymakers saw the GATT as a tool to shore up Western alliances in the nascent days of the Cold War.[6] From an economic perspective, trade negotiators designed the GATT to be an antidote to prevent a return to the "beggar thy neighbor" tariff policies of the 1930s, which postwar economists and policymakers saw as having exacerbated the Great Depression. The agreement required reductions in tariff rates and ensured that members accorded each other "most favored nation" trading status to put further downward pressure on tariffs over time. From a U.S. perspective, American officials also understood the GATT as a tool to help open markets to U.S. goods at a time when the United States was the world's largest net exporter and needed foreign markets to replace war-driven demand for U.S. industry. Reductions in foreign tariffs on U.S. goods provided a major direct benefit for American industry.[7]

The United States pushed to expand the GATT several times during the Cold War. The so-called Kennedy Round of 1964–1967 resulted in additional tariff reductions and began to establish disciplines around dumping, the practice where a country sells a product internationally at a lower price than the product sells for in its home market. The Tokyo Round of the 1970s expanded participation in the GATT to more than one hundred countries, seeking to include much of the nonaligned developing world. It began to try to tackle nontariff barriers and "voluntary export restraints," a type of measure where countries would agree to limit export quantities in exchange for avoiding tariffs. With the introduction of a Subsidies Code, the Tokyo Round also began to introduce the concept of rules around subsidies.

However, the modern trade orthodoxy that guided U.S. trade policy from the end of the Cold War through the mid-2010s crystallized in the late 1980s and early 1990s. The fall of the Berlin Wall ushered in America's unipolar moment, when America's geopolitical policymakers saw an opportunity to use trade and economic relations to anchor its former Soviet adversaries and emerging geopolitical competitors, notably China, in a U.S.-led international order. Presidents Ronald Reagan, George H. W. Bush, and Bill Clinton, meanwhile, presided over a period of neoliberal economic consensus in Washington that Washington thought was an economic model appropriate for the world as well. Trade policy and trade deals (as well as other policy levers such as the International Monetary Fund) offered a tool to promote that U.S. economic model abroad. This intersection of geopolitics and economics ushered in a remarkably productive period of trade policymaking, with initiatives such as the North American Free Trade Agreement (NAFTA), the World Trade Organization (WTO), and free trade agreements (FTAs) with more than a dozen nations. Other related policies included the Africa Growth and Opportunity Act (AGOA), which cut tariffs on imports from democratic countries in Africa in a bid to foster development and democratic progress on the continent.

The deals of this era had a clear geopolitical logic. NAFTA was designed to strengthen the North American political union and, in the eyes of both presidents Bush and Clinton, to provide an eventual pathway toward a more democratic and economically unified Western Hemisphere—a vision that George H. W. Bush's son and later president George W. Bush, took further with the Central America–Dominican Republic FTA (CAFTA-DR) a decade after NAFTA entered into force. The WTO, and China's ultimate accession to it at the end of the decade, reflected the prevailing 1990s geopolitical view that a global trading arrangement would help draw countries like China toward the West. As Clinton said of China's accession in 1999, "it represents the most significant opportunity that we have had to create positive change in China since the 1970s," noting that China was "agreeing to import one of democracy's most cherished values: economic freedom. The more China liberalizes its economy, the more fully it will liberate the potential of its people."[8] Or, as George W. Bush said about U.S. legislation to enact the CAFTA-DR agreement, "this bill is more than a trade bill. This bill is a commitment of freedom-loving nations to advance peace and prosperity throughout the Western hemisphere."[9]

FTAs with Morocco (2004), Bahrain (2005), and Oman (2006), enacted in the years following the 9/11 terrorist attacks, were intended to bolster American allies in the war against Islamic terrorism and with the aspiration that economic progress could reduce the terrorist threat. In a 2003 presidential speech, George W. Bush laid out his economic vision for the region, which proposed bilateral FTAs as stepping stones toward a Middle East Free Trade Area. As he remarked, "across the globe, free markets and trade have helped defeat poverty, and taught men and women the habits of liberty."[10]

The economic logic behind these deals was as important as the geopolitics. From a macroeconomic perspective, the trade deals of this era reflected a view that the U.S. economy could benefit from offshoring lower-value U.S. manufacturing in order to lower consumer costs, while encouraging the domestic growth of higher-value industries like software, healthcare, and value-added manufacturing. As Clinton put it in 1993, "this debate about NAFTA is a debate about whether we will embrace [economic] changes and create the jobs of tomorrow, or try to resist these changes, hoping we can preserve the economic structures of yesterday."[11] Trade globalization was thought to create opportunities for new U.S. exports, encourage innovation by forcing companies to compete globally, and lower consumer costs. Furthering Clinton's argument in support of NAFTA and an aspirational Latin America free trade deal, policymakers also thought that an expanded U.S. trade block could deliver the economies of scale needed to compete with the emerging European Union trade block and growing intra-Asian regional trade.[12]

With the texts of the deals themselves, trade policymakers sought to promote the then-prevailing economic consensus in Washington, which championed reduced government subsidies; nondiscrimination for goods produced by other countries; lower regulatory burdens for business, including the then-nascent digital economy; and strong intellectual property (IP) protections. Policymakers also sought to promote higher labor and environmental standards and to tackle challenges like corruption. Senior figures in Washington often spoke of these goals as raising standards internationally and writing global rules based on U.S. rules.

The WTO's Agreement on Subsidies and Countervailing Measures (SCM Agreement), which went into effect in 1995, for example, drastically expanded the pre-WTO GATT's disciplines regarding industrial subsidies.[13] Throughout the text of the WTO agreements and U.S. FTAs, countries agreed to accord "national treatment" to each other's goods, committing not to give preference to domestically produced goods. In most U.S. FTAs, and with respect to the countries that have signed up to the WTO's Government Procurement

Agreement, this nondiscrimination commitment even extended to government procurement of goods—meaning that the U.S. government, for example, should not show a preference for U.S.-made cars over foreign cars when buying for the federal fleet.[14] Of course, these agreements also required governments to allow U.S. companies to bid on their procurement contracts.[15]

U.S. FTAs typically included chapters ensuring that FTA partners offered IP protections comparable to U.S. IP protections. Several also sought to codify legal immunity for digital platforms regarding content posted by their users, just as platforms have immunity in the United States from lawsuits over user-posted content. Free data flows generally were protected, and governments made other commitments to not limit the operations of digital platforms operating in their countries. Trade policymakers also regularly touted deal language that promoted workers' rights and environmental standards.[16]

The final chapter of this era of trade policymaking was President Barack Obama's support for the Trans-Pacific Partnership (TPP), a trade deal between a dozen economies in the Americas and Asia negotiated by the Obama administration in 2016. The TPP expanded on earlier FTAs from the 2000s and early 2010s, including by developing new disciplines on state-owned enterprises and currency manipulation.[17] But the Obama administration made its case for the TPP largely on geopolitical grounds, arguing that it would be an important economic counterweight to China's influence in the Pacific and an economic pillar of the administration's "pivot to China."[18]

The Modern Paradigm's Fall From Grace

Obama signed the TPP in January 2016. But even as he pushed for congressional ratification of the deal, it was becoming clear that the trade paradigm that had dominated Washington policy discussions since the early 1990s was falling out of favor. By late 2015, key congressional leaders had begun to express skepticism of the emerging TPP provisions, and ultimately they never scheduled a vote on the deal.[19] Both of the major presidential candidates in 2016, Democrat Hillary Clinton (who had supported the early development of the TPP while serving as Obama's secretary of state) and Republican Donald Trump, opposed the deal on the campaign trail, and Trump withdrew the United States from the deal shortly after his inauguration in 2017. (The other members of the deal, led by Japan, moved forward and completed the deal, rebranded as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, in 2018.)

As president, Trump generally eschewed traditional trade deals in favor of a tariff-heavy approach to trade, intended to put pressure on China while protecting U.S. industries, like steel, that he deemed important. Nevertheless, he did successfully enact the U.S.-Mexico-Canada Agreement (USMCA), an overhaul of the NAFTA agreement from twenty-five years earlier. And while some in the trade policy and national security communities hoped that Biden would launch negotiations to reenter the TPP, Biden has instead launched trade initiatives like the IPEF that are intended promote cooperation on trade and standards but do not provide access to the U.S. market as traditional FTAs would. And even without U.S. market access, such initiatives have proved politically controversial. In November 2023, for instance, Biden indefinitely postponed finalization of the trade-related aspects of IPEF owing to concerns by Democrats in Congress that the deal would be politically harmful and due to opposition by American labor unions.[20] Biden also quietly postponed nascent trade talks with the United Kingdom and Kenya that began in the last months of the Trump administration, and late last year his trade representative, Katherine Tai, withdrew long-standing U.S. support for proposed digital trade rules at the WTO. Trump, in his campaign to regain the presidency this year, has doubled down on his commitment to tariffs and other protectionist measures rather than deals, floating the idea of imposing a 60 percent tariff on goods imported from China and a 10 percent tariff on products imported from everywhere else.[21]

Of course, trade has long been a hot-button political issue. Texas billionaire H. Ross Perot made his opposition to NAFTA a signature issue in his 1992 independent presidential campaign against Bill Clinton and incumbent George H. W. Bush, and trade deal approvals have always been hard fought in Congress. But for the twenty-five-year period between 1990 and the mid-2010s, geopolitical and economic logic were able to overcome that political opposition to see deals to fruition. Today, there is scant evidence that new trade deals could get through Congress, and a dwindling number of elected political leaders are willing to argue in favor of them. There are several reasons for this change in political support.

The first is the shifting U.S. relationship with China. Although economic research from the 1990s and early 2000s generally found that expanding U.S. trade flows had at most a limited impact on U.S. manufacturing employment, with other factors such as automation playing a larger role, research from the mid- and late 2010s found that the “China shock” of growing U.S.-China trade in the 2000s had substantially more disruptive impacts on jobs.[22] Moreover, communities adversely impacted by the China shock have seen little recovery over the past decade.[23] Adverse employment impacts from trade with China, combined with China’s rise as a geopolitical competitor, have led to bipartisan support for “derisking” U.S. supply chains from China, fueled the arguments of trade skeptics, and renewed a focus on U.S. domestic manufacturing.

The second reason is shifts in domestic political preferences. It is true that some polling shows that the majority of Americans are supportive of trade: a 2023 poll commissioned by the Chicago Council for Global Affairs, for example, found that 74 percent of Americans say “trade is good for the U.S. economy.”[24] But as prominent economist Alan Blinder pointed out several years ago in *Foreign Affairs*, “most Americans’ belief in free trade is a mile wide but an inch deep,” with polling responses varying widely depending on which questions are being asked and whether Americans are asked only about trade in the abstract or also about American manufacturing and jobs.[25]

Trade policy is a classic example of an issue where a constituency that is invested deeply in and affected by an issue, such as specific U.S. industries and workers who face the risk of losses from trade, exert more influence than a majority of voters who may benefit from lower prices but who do not see their well-being as being deeply connected to trade issues. Recent polling by American Compass, a conservative organization that is skeptical of trade deals, has also shown that while a plurality of Americans thinks they personally benefit from globalization, a similar plurality thinks the United States as a whole has been harmed.[26] Other recent polling suggests that on trade, more Americans trust Trump, with his zeal for tariffs, than trust Biden.[27] Academic research, meanwhile, indicates that while Trump's tariffs were an economic mixed bag, they won Republicans votes at the ballot box.[28]

A third reason is that the raw economic benefits of trade deals have become less compelling. Take the TPP as an example: even the Obama administration's own official estimate found that the TPP would add just 0.15 percent to U.S. gross domestic product (GDP) after a decade, hardly a compelling economic justification for the deal.[29] And in the years since Trump abandoned the deal, actual U.S. trade flows have still moved in a beneficial direction: China's share of U.S. goods imports declined from a high of over 20 percent in the late 2010s to approximately 15 percent last year, while the absolute value of U.S. goods imports from China fell last year to the lowest level in a decade.[30] Trade with allies and partners also has grown: since 2017, U.S imports of goods from India are up 37 percent, up 80 percent from Indonesia, up 61 percent from the Philippines, and up a whopping 200 percent from Vietnam—the last of these now exports goods valued at a quarter of its entire GDP to the United States. The United States became India's largest trading partner in 2023, while U.S. exports to the European Union and European imports from the United States are both up more than 25 *percent* over the past few years.[31] Overall U.S. exports today substantially exceed prepandemic levels, reflecting growing global demand for U.S. energy, agriculture, and manufactured goods, as well as U.S. services.

Meanwhile, Americans traditionally thought to be adversely impacted by trade are doing well. Real wages for lower-income Americans grew strongly in 2023, and, in a reversal of the trend that has prevailed for most of the past two decades, the real wage growth for lower-income Americans over the past two years has been higher than the rate of wage growth for higher-income Americans.[32] Women and Black Americans also saw historic gains in the labor market.[33] A situation where both U.S. companies and U.S. workers are doing well creates little incentive to open U.S. markets to more competition. Numbers like these reinforce skepticism about the benefits of new FTAs.

But perhaps the most important reason for declining U.S. political support for new trade deals is that the economic theory of the case that underpinned the deals of the 1990s to the mid-2010s has fallen out of favor in Washington. At a fundamental level, a bipartisan consensus has emerged in Washington that the United States should rebuild its manufacturing industrial base and focus more on the economic well-being of American workers. Irrespective of whether prioritizing manufacturing optimizes American economic growth, there is strong political support for doing so.

In some sectors, U.S. domestic support for reindustrialization is driven by geopolitics: Congress's bipartisan support for the CHIPS Act in 2022, which will provide more than $75 billion in incentives for manufacturing semiconductors in the United States, was driven in part by concern that a conflict between China and Taiwan could cut off America's access to the chips it needs for industrial, defense, and consumer applications. In other sectors, such as manufacturing clean energy technologies, the push for reindustrialization is driven by a combination of geopolitical desires—ensuring that the United States is not dependent on China for green technologies—as well as domestic economic interests in boosting manufacturing employment in emerging manufacturing sectors. Across the political aisle, Biden's trade representative Katherine Tai and Trump's former trade representative Robert Lighthizer are united in a view that a goal of trade policy should be to raise wages and well-being for workers and that, for too long, trade policy has focused on benefits to consumers.

At a macroeconomic level, this desire to reindustrialize in many respects runs counter to the economic theory that underpinned many of the major trade deals of the past, which posited that U.S. workers would move up into "higher value" sectors like information technology, healthcare, and advanced manufacturing as the United States offshored lower-value (and lower profit margin) types of manufacturing. Moreover, many of the tools that policymakers want to deploy to rebuild manufacturing may run up against the trade rules that the United States long supported. Many of the United States' European and Asian allies, for example, argue that the manufacturing subsidies the United States adopted in the CHIPS Act and particularly the green energy–focused Inflation Reduction Act violate the spirit and likely the letter of provisions of the WTO and U.S. trade agreements that long sought to limit industrial subsidies or at least give countries the right to retaliate against them.[34] Likewise, "Buy America" provisions that direct the U.S. government to purchase American-made products run counter to trade rules on government procurement long supported by the United States.

The United States confronts a similar dynamic with respect to policymakers' preferences on technology and the digital economy. Going back to the early days of the internet and continuing through the 2019 U.S.-Japan digital agreement, U.S. trade agreements have sought to promote light-touch regulation of the tech sector, guarantee the free flow of data across borders, and protect tech companies from lawsuits for content posted online. Today, Democrats and Republicans alike are pursuing a much more aggressive regulatory approach to technology companies, including competition policy crackdowns, efforts to repeal companies' immunity for content posted online, and increased restrictions on cross-border data flows, at least to China. Some members of Congress and policy experts in the United States even want to revisit long-standing patent and copyright protections—such as the Biden administration's current consideration of exercising "march in rights" to override patents to reduce drug costs—arguing that U.S. law has become too protective of intellectual property.[35] The rise of generative AI is also likely to prompt a profound reassessment of intellectual property protections. These shifting domestic preferences, much like America's growing preference for industrial policy, in many ways run counter to provisions historically supported in U.S. trade deals and will require a reassessment and overhaul of the trade rules America pushes for.

How to Reset the Agenda

Faced with fading support for FTAs, over the past two years trade-focused experts, industry lobbies, and protrade officials in Washington have floated a number of ways to reboot support for trade deals. The most popular approach has been to lean heavily on geopolitical arguments for trade. Commentators and political figures from across the political spectrum have argued that geopolitical competition with China makes trade deals with allies important: a late 2023 report by the bipartisan U.S. House of Representatives Select Committee on China, for example, argued that to compete with China the United States should "pursue trade agreements with strong rules of origin and high standards," and it suggested Taiwan and possibly the United Kingdom and Japan as partners.[36] As the *Washington Post* put it more succinctly in the title of a 2023 editorial, "To compete with China, the U.S. should put real trade deals on the table."[37]

Geopolitics has been the driving argument for the Biden administration's IPEF. As Commerce Secretary Gina Raimondo said at a 2022 launch event, the IPEF "marks an important turning point in restoring U.S. economic leadership in the region and presenting Indo-Pacific countries an alternative to China's approach to these critical issues."[38] Commentators such as Matthias Dopfner, meanwhile, have argued that Western democratic states should create a democratic trading block that increasingly would align trade policy with values while establishing the type of large economic scale that drives the efficiency gains that have been a long-standing economic argument for trade.[39]

The idea of a broad democratic trading bloc is appealing as a long-term vision. But there is little reason to expect that geopolitical arguments for trade will prevail in the debate—particularly after they failed both to gain support for the TPP and to prevent Biden from postponing the IPEF trade pillar. The political and policy reality is that, aside from America's robust defense budget, Americans are wary of policies that they perceive as requiring the American taxpayer to pay for the benefit of even other democratic states, as evidenced by the comparatively low levels of U.S. foreign assistance, and, more recently, the sharp congressional debate over continuing U.S. military and economic support to Ukraine.[40] Framing trade deals as a sort of tax the United States should pay to strengthen the democratic world against China and other autocracies is unlikely to be a winning argument in the American heartland without a healthy dose of economic self-interest thrown in as well. Moreover, a number of large emerging market democracies that would be an important part of a democratic trading block, such as India and Brazil, have traditionally pursued protectionists trade policies and seem unlikely to be interested in a broad market liberalization in the near or mid-term.

A handful of former officials, seeing the political success of the USMCA—Trump's updated NAFTA—have argued that the new agreement could be expanded to add additional members, potentially ultimately countries on both sides of the Pacific.[41] But here, too, both the politics and the policies likely would prove challenging. Although there was broad bipartisan support for USMCA, that support reflected the fact that the United States already had a trade deal with Mexico and Canada (NAFTA) and bipartisan recognition that after twenty-five years, elements of NAFTA were in need of an update. Adding more countries, which would de facto result in the United States entering into new agreements with countries that did not have preexisting FTAs, would carry a different and almost certainly more challenging set of political dynamics. Instead, the way to reset the trade agenda is to start by resetting the economic logic of deals. If successful periods of trade policymaking have occurred in the past when the United States saw deals as advancing both its economic and its geopolitical interests, policymakers need deals that work on the economics as well as the geopolitics.

To reset the economics, policymakers should start by thinking less about traditional goals of market liberalization and more about discrete global challenges that require international economic cooperation—and possible ways of using trade deals to address those challenges. This would almost certainly mean pivoting from a bilateral or regional approach to trade to a sectoral approach to trade that brings together different sets of international partners to address discrete challenges.

Start with climate and energy. Global climate change poses an existential threat, as carbon dioxide emissions hit a new global high in 2023 despite years of international promises to address the problem.[42] The United States accounts for only about 15 percent of total global emissions, whereas traded goods and services account for perhaps 25 percent of global emissions.[43] Trade policy offers a powerful tool to tackle the 85 percent of emissions that originate outside the United States. Meanwhile, many U.S. allies and partners face a near-term challenge of securing their supplies of traditional fossil fuel energy, particularly following Russia's 2022 war on Ukraine. European allies, for example, have had to scramble to find substitutes for Russian oil and gas. Even the United States remains far too dependent on Russia for uranium for nuclear power.[44]

A climate and energy agreement could bring together a group of countries with the technologies and critical materials needed to produce clean energy, such as South Korea on battery technology, Indonesia for critical minerals, and the European Union for its role in clean power. The countries could work together to coordinate clean energy supply chains and industrial policies to promote the adoption and manufacturing of clean energy technologies. They also could commit to technological cooperation on clean energy technologies, with members, for example, offering streamlined permitting for nuclear energy construction from other member states. As with any trade deal, there would be an economic give and take: the United States and Europe, for instance, could offer countries access to incentives for green energy manufacturing in exchange for reliable access to critical inputs produced with high environmental and labor standards.

Meanwhile, the United States and Canada, major producers of traditional fossil fuels, could commit to providing access to fuels such as liquefied natural gas to address near-term energy security needs while the green transition is underway. The United States also could commit to maintaining high tariffs on Chinese clean energy technologies, including Chinese clean energy technologies produced in third countries, leveraging supply chain diversification away from China as an incentive for participation. It might also make efforts to lean heavily on the European Union and other allies to agree to impose similar tariffs on their imports of green energy products, such as electric vehicles (EVs), from China.

Conversely, countries could coordinate so-called carbon border adjustment mechanisms, which impose tariffs on products based on their carbon emissions, to put pressure on nonmember states like China and other highly polluting countries to reduce their emissions as well. Indeed, the United States and Europe are already discussing miniature versions of coordinated trade action for the clean economy. The proposed Global Arrangement for Sustainable Steel and Aluminum would promote trade in low-carbon steel and aluminum products, and proposed agreements on critical minerals would offer foreign battery materials makers some access to U.S. Inflation Reduction Act subsidies.[45] These nascent steps could be bolstered and expanded into a compelling agenda.

A second sectoral area for trade policy focus would be to develop an "economic security" arrangement that coordinated industrial policy measures while strengthening supply chains for critical products. Countries such as Germany and Japan have joined the United States in pursuing new industrial policy measures, as in the case of the European CHIPS Act, which provides incentives for semiconductor manufacturing in Europe to match the U.S. version.[46] Although this approach is welcome, in that it will likely spur further global production of important products like green technologies and semiconductors, poorly coordinated industrial policy measures risk triggering global subsidy fights and creating incentives for companies to play governments off against one another in a bid to maximize subsidies beyond those strictly needed to spur a project.

Meanwhile, the United States continues to face significant supply chain risks for other key products, such as medical devices and pharmaceutical ingredients. The production of many pharmaceuticals ingredients and some medical devices is concentrated on China and India. The United States, Europe, Israel, and a number of other countries, however, have a strong interest in resilience. An economic security arrangement could enable like-minded countries to coordinate industrial policy measures and promote supply chain resilience across critical products.

A final area for a sectoral agreement is AI and the digital economy. The United States has already begun to promote shared global standards for AI development through the G7's Hiroshima process.[47] Over time, an AI and digital economy agreement could link G7 political agreements into binding commitments for a larger number of countries to adopt. With respect to the digital economy, such agreements could establish shared standards and rules of managing data flows to strategic competitors, notably China, to prohibitions on government review of source code for apps and software developed in participating countries and expanded access to the digital economy and trusted telecommunications network infrastructure.

Sectoral agreements also would let the United States reconceptualize the tools that are included in a trade agreement. Since the first modern FTA in the 1980s, American trade agreements have focused on reducing tariffs and aligning regulations, generally around American standards. But trade—the actual exchange of goods and services and the associated economic activity—depends at least as much on policies and tools outside the scope of these FTAs as it does on FTA provisions: effective infrastructure, streamlined permitting processes, access to capital, and a skilled workforce. It is time for the United States to open the aperture of what a trade agreement can include to bring in a larger set of tools and potential commitments. For example, an AI and digital economy agreement should not be limited to governance and regulatory standards—it also should include meaningful financial commitments to help developing-world partner countries procure secure Western telecommunications equipment, rather than relying on Chinese suppliers. Similarly, a climate and energy agreement should include commitments to work together on streamlining the permitting process for high-priority projects that require a footprint across participating countries.

National security tools should also be on the table. The Committee on Foreign Investment in the United States (CFIUS) and export controls have come to play a far more prominent role in the international economy in recent years. Here, the United States should use trade deals in an offensive rather than defensive manner, for example, using trade deals to lock in commitments by foreign governments to restrict Chinese acquisitions of strategic companies in their countries. But the United States should also use its own national security tools as an incentive. A climate and energy agreement, for example, should promise to whitelist reputable automotive companies from allied nations like Japan for streamlined CFIUS approval, ensuring that they can invest in promising EV and autonomous driving companies in the United States. A digital economy agreement could include commitments not to impose export controls on allies without advance notice and consultation.

Finally, sectoral deals will let the United States focus trade provisions on specific facilities, rather than country of production. When the Trump administration negotiated the USMCA, for example, it included novel provisions that required workers to be paid at least $16 an hour for automotive parts to qualify for USMCA tariff treatment—essentially meaning that only certain Mexican plants qualify. Sectoral trade agreements are well suited to take this type of approach: a climate and energy agreement, for example, could offer foreign-made electric parts access to some of the subsidies contained in the Inflation Reduction Act, but only for facilities that meet the highest labor and environmental standards.

Negotiating large sectoral agreements undoubtedly will be challenging, as countries argue over the scope of covered sectors, market access, and the commitments to put on the table. But sectoral agreements also offer a new set of opportunities—to reframe trade deals as solving tangible problems that matter to the American people and to the world at large, and to negotiate rules that would internationalize some domestic policy changes within the United States.

Addressing China—and Whither the WTO?

Of course, a rebooted U.S. trade agenda is not just about deals with allies—it also requires addressing the U.S. trade relationship with China.

For many years, the strategic paradigm of U.S. trade policy toward China was defined by the hope that economic ties would persuade China to continue on a course of gradual economic and political liberalization. By the mid-2010s, it was clear that this paradigm had failed, prompting Trump to impose sweeping tariffs in a bid to generate negotiating leverage to compel China to change its economic model. China responded to the tariffs, initially with retaliatory tariffs on U.S. exports like agricultural products, and ultimately Trump offered tens of billions of dollars in assistance to U.S. farmers to offset the impacts of Chinese tariffs.[48] Later, China offered a handful of concessions as part of a “Phase 1” trade deal, largely to avoid a threatened future tariff escalation. However, China steadfastly refused to make more fundamental changes to its economy and market, and there is no evidence that China’s willingness to reform has increased in the years since.

Moreover, even in the unlikely event that China made additional trade concessions to the United States, it is far from clear that they should be accepted: the United States has a strategic interest in reducing its dependencies on China in critical goods irrespective of whether China offers better terms on trade. For example, even if China somehow offered to allow American firms to produce critical minerals or EV batteries in China on fair terms, the United States has a strategic interest in ensuring that its domestic markets are not reliant on those supplies. The United States of course should pursue appropriate, fair terms for trade in nonstrategic goods, but when it comes to critical products, the U.S. objective should be to derisk the relationship, not for American and Chinese firms to compete on a level playing field.

Against that backdrop, the United States should rebalance its China tariffs to prioritize derisking rather than leverage for a deal. For example, it should raise tariffs on products where supply chain vulnerabilities remain acute, like EVs, batteries, medicines, and critical materials, while potentially offering some reductions in tariffs on nonstrategic consumer goods.

Effective derisking will require more than simple tariffs on China, however: it also will require measures to reduce the Chinese content in imports from third countries. There is a growing body of evidence, for example, that some of America's growing imports from Vietnam are of products composed mostly of Chinese components, with low-value finishing work done in Vietnam. The United States needs to revisit the so-called rules of origin that determine what a product's country of origin is for tariff purposes to begin derisking the upstream elements of critical supply chains. It also needs to figure out how to tackle China's dominance in a handful of strategic construction industries, like shipbuilding and port infrastructure, where China's impacts are global.

Though a U.S. pivot to sectoral agreements and more active management of the U.S.-China trade relationship could offer the potential to reboot the U.S. trade agenda, it will draw even more questions from U.S. allies about whether the United States has any residual support for the WTO. The WTO still serves as a basic framework for trade between nearly 200 countries, but the simple, often unspoken reality is that many American policymakers today regard the WTO as an outdated institution that reflects a different geopolitical moment. One of the WTO's core tenets is that countries would accord each other preferential "most favored nation" trade status, in that the United States would set similar tariffs for both competitors like China and allies like Germany. With the resurrection of great power geopolitics as a defining feature of international relations, for most American policymakers it makes little sense for the United States to promote a global trading regime. Instead, most U.S. policymakers would prefer to see the development of a U.S.-centered trading bloc or blocs among allies and partners.

That said, most of America's allies remain committed to the WTO, for understandable reasons. As the world's largest economy, the United States is relatively well-positioned to negotiate bilateral or plurilateral agreements with major trading partners. Most small and midsize countries, however, strongly benefit from a stable global trading system rather than having to negotiate hundreds of bespoke agreements. The WTO also offers smaller countries a set of rules they see as being a valuable check on both the protectionist actions of large countries and for smaller countries to manage trade among themselves. The WTO itself, meanwhile, requires consensus for major changes, making reform unlikely. Moreover, a U.S. withdrawal from the WTO would be costly. It would result in more than one hundred countries around the world having the right to impose higher tariffs on the United States. To avoid that outcome, the United States would have to negotiate an unmanageable number of new deals in a short time frame.

Unfortunately, there is no clear path forward to resolve global differences on the WTO, given differences of both interest and opinion between the United States and its partners. The simplest path is likely for the United States and China, or perhaps the G7 on one side and China on the other, to reach a kind of mutual detente in which WTO rules would not actually govern trade between them. In many ways, this scenario would simply codify and expand the existing de facto reality between Washington and Beijing, where both Trump's 2018 tariffs on China and China's retaliation violate WTO rules, but the two governments effectively have reached a mutual understanding on tariff rates that simply exist outside the WTO system. Over the longer term, however, the world may see global trade continue to move toward discrete blocs—and this trend is already well underway.[49] But there is not yet any international consensus on what a vision for that future would look like.

Conclusion: Does Trade Policy Matter?

Of course, for many Americans, and many policymakers, a rational lesson of the past few years could be that American trade policy does not need a reboot. Supply chains are diversifying away from China, U.S. exports are up, and real wages for workers are rising. Even if allies and partners complain about the lack of new American trade deals, rising actual trade volumes and closer defense relationships, like the AUKUS nuclear submarine deal with Australia and the UK and closer U.S. military cooperation with the Philippines, help to strengthen geopolitical ties. And even policymakers who want to use trade deals to strengthen geopolitical relations have to acknowledge that the correlation between economic and geopolitical relations is far from perfect. After all, Russia invaded Ukraine in 2022 despite decades of European policy aimed at using trade to anchor Russia economically into the West. As Lighthizer told a House committee last year, the iconic rock band the Beatles taught him that "money can't buy me love" and that he doubted that "transferring our wealth to these people is going to make them like us more."[50]

The strongest argument for rebooting U.S. trade policy ultimately may not be geopolitics, nor even the economic argument that trade deals will help an already-strong U.S economy. Instead, the best argument is that trade is a key element of solving global challenges that affect us all, like the green energy transition and the risks of AI and the digital economy. For trade policy to advance those goals, and win the domestic support that will be needed to make them happen, it is time to develop a trade policy designed around them.

About the Author

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