

A Way Forward for Global Trade

It's time to envision the global trade framework for a sustainable future

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WHEN I BECAME the US trade representative in 2013, my then-11-year-old son asked me to explain my new job. He had accompanied me on a trip to India the year before, and we had visited the US ambassador at his beautiful residence in Delhi. My son understood that as trade representative, people called me “Ambassador” too, but we weren’t moving to a new country and new house. He was curious. “What the heck does a trade representative do anyway?” he asked.

I suggested we look at the labels on the clothes in his closet. Made in Mexico. Made in Bangladesh. Made in Cambodia. “All of them,” I explained, “represent a trade agreement or a trade preference program that countries negotiated. It all comes down to trade,” I told him.

In the decade since, global trade has taken some significant twists and turns. Trade agreements and globalization were once lauded for creating efficient and dynamic supply chains, lifting hundreds of millions of people out of poverty, and reducing prices for consumers around the globe. What followed has been a sharp backlash amid

concerns that trade liberalization and the offshoring of manufacturing had hollowed out industry in developed nations. Countries are now pursuing more nationalistic policies. And in turn, that has led to hand-wringing about the future of the multilateral trading system and, specifically, the role of the World Trade Organization (WTO).

While globalization is being intensely scrutinized, it is also evolving. Rumors of its death are largely exaggerated or, at least, are premature. Some countries have certainly retreated from negotiations to liberalize trade, but others, particularly in Africa, continue to charge ahead. Companies are reevaluating their supply chains, focusing not solely on efficiency, but also on security, resilience, and redundancies. There has been some onshoring, but also nearshoring and even friend-shoring. Global trade continues to grow.

At the same time, the global trading system has reached an inflection point. Pressing concerns, such as the convergence of climate and trade policies, could strengthen international cooperation or create new fissures. And there are real questions about the limits of multilateralism and the need for a new political consensus around trade.

Convergence of climate and trade

Late last year, I was in Egypt for COP27, the UN’s climate change conference. The dialogue was one of urgency. Governments, environmentalists, scientists, and business executives all focused on what could be done to address global warming.

The conference itself produced modest results, but, looking back, the most ambitious climate change actions might well have been unilateral steps taken by major economies last year—specifically the Inflation Reduction Act (IRA) in the US and the Carbon Border Adjustment Mechanism (CBAM) in the European Union.

The IRA became law last August and is considered one of the most significant pieces of climate legislation ever enacted in the US. It includes \$400 billion in climate-related spending over a decade.

Among other things, it incentivizes electric vehicle purchases with a \$7,500 consumer tax credit, and it subsidizes US-based manufacturers to produce clean tech and green energy.

The CBAM, which goes into effect in October, will impose a fee—the EU is careful not to talk about it as a tariff or a tax—on imported products from manufacturers in countries that do not have comparable carbon pricing mechanisms.

The IRA has faced criticism from US non-free-trade-agreement partners. They argue that applying these subsidies is discriminatory and could lead to the outflow of clean-energy-related investments from other countries. This, in turn, has led the EU to propose an additional package of clean energy subsidies of its own. The CBAM has raised concerns that, given the complexity of measuring emissions and comparing carbon pricing mechanisms, the EU's unilateral judgments could be exploited for protectionist purposes, including against developing economies.

While climate and trade policies once operated as separate regimes, they are now converging, and sometimes conflicting. Whether major economies collaborate or go their own way is yet to be determined.

Trend toward open plurilateralism

Can the WTO resolve an issue like this? Likely not, at least not in the short term. Since its founding in 1995, the WTO has been slow or unable to fully reach multilateral agreements, with the notable exceptions of the Trade Facilitation and the Fisheries Subsidies agreements, two leading multilateral deals.

While trade economists tell us that multilateral agreements are the highest and best form of trade liberalization, our collective experience in recent decades has made clear that there is no political consensus around what major economies want from the global trading system and what role the WTO should play. Indeed, it is hard to achieve institutional reform if there is no underlying political consensus.

What is needed now is a substantive conversation among leaders of major economies about the shifting and often contradictory demands on the global trading system. To what degree should it be focused on economic efficiency? On national industrial agendas? On economic development? To what degree should it address labor and environmental issues? What role should it play in leveling the playing field, disciplining state-owned

enterprises, and weighing subsidies? Ultimately, should the goal be to create a rules-based system and the mechanisms for enforcing those rules?

These are fundamental questions that need to be addressed before meaningful WTO reform can be achieved. And they cannot be answered by simply ignoring or wishing away the reality of democracies, domestic politics, or public opinion. Populism, nationalism, nativism, and protectionism are real. They shouldn't dictate a lowest-common-denominator economic policy, but they do need to be addressed.

In the meantime, in the absence of consensus around the global trading system, the world continues to spin on its axis, technology advances, and economies evolve. Now, more than ever, coalitions need to come together to set standards that can lay the groundwork for a broader approach.

Take the digital economy. Issues around the role of digital services, data, privacy, and cybersecurity, to name a few, have a potentially greater impact on many economies than tariffs.

Disciplines that were introduced in previous regional and bilateral trade agreements set high standards around some of the most important issues facing the global economy. Now, too, there is an opportunity for public and private sectors to collaborate, but there is also a risk that unilateral action by one party or another could lead to greater trade friction.

In the absence of consensus around multilateral agreements, open plurilateralism—the negotiation of agreements among countries willing to go above and beyond the lowest common denominator and willing to live up to those standards—might well be the most promising way to advance important trade issues. A series of recent trade deals, from the Comprehensive and Progressive Agreement for Trans-Pacific Partnership to the United States-Mexico-Canada Agreement, are important examples of how to move forward.

The challenges facing the global trading system might have gotten more complex since the journey through my son's closet a decade ago, but it is more important than ever that we deal with those challenges successfully. There is too much at stake to be complacent. **FD**

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