Volume Title: Clashing over Commerce: A History of U.S. Trade Policy

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Volume Publisher: University of Chicago Press

Volume ISBNs: 978-0-226-39896-9 (cloth); 0-226-39896-X (cloth); 978-0-226-67844-3 (paper); 978-0-226-39901-0 (e-ISBN)

Volume URL: http://www.nber.org/books/irwi-2

Conference Date: n/a

Publication Date: November 2017

Chapter Title: From Globalization to Polarization, 1992-2017

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Chapter URL: http://www.nber.org/chapters/c13863

Chapter pages in book: (p. 625 – 688)

CHAPTER THIRTEEN

From Globalization to Polarization, 1992–2017

If the 1980s saw the imposition of many temporary import restrictions to protect domestic producers from foreign competition, the 1990s saw the opposite: major initiatives to roll back trade barriers and deepen America's integration into the world economy. These included the conclusion of the North American Free Trade Agreement (NAFTA), the completion of the Uruguay Round, which created the World Trade Organization (WTO), and the establishment of Permanent Normal Trade Relations (PNTR) with China. Along with market-opening reforms in developing countries, these measures led to an enormous increase in world trade. These policy actions, however, generated increasing political controversy and eroded the bipartisan consensus in favor of freer trade. Although several bilateral agreements were concluded in the 2000s, the fight over trade policy had become sharply partisan by this time, and the prospects for further trade agreements diminished. As the country's political and economic polarization increased, US trade policy became more contentious than at any time in the post–World War II period.

THE NORTH AMERICAN FREE TRADE AGREEMENT

If trade friction with Japan was the defining feature of US trade policy in the 1980s, NAFTA was the defining trade-policy battle of the 1990s. The political scars from that battle were still evident in American trade politics more than a quarter of a century later. As we saw in chapter 12, the shift toward bilateral and regional trade agreements began in the mid-1980s and grew out of a frustration with the reluctance of major trading partners to reduce trade barriers, scale back intervention in agricultural and other markets, and strengthen the enforcement of GATT rules. In

1985, President Reagan laid down this challenge: "If these [proposed multilateral trade] negotiations are not initiated or if insignificant progress is made, I'm instructing our trade negotiators to explore regional and bilateral agreements with other nations."[1] Of course, while the United States could announce its willingness to start regional or bilateral negotiations, other countries had to embrace the idea for anything to be accomplished.

After the free-trade agreement with Canada was concluded, the United States offered the same opportunity to others in the Western Hemisphere. In his 1988 State of the Union message, Reagan stated that "our goal must be the day when the free flow of trade, from the tip of Tierra del Fuego to the Arctic Circle, unites the people of the Western Hemisphere in a bond of mutually beneficial exchange." Given the lack of enthusiasm that many Latin America countries had for reducing trade barriers, this invitation was likely to be ignored.[2]

But a major political development intervened. The unexpected fall of the Berlin Wall in November 1989, the collapse of Communism in Eastern Europe and later the Soviet Union, and the end of the Cold War not only shook up world politics, but had ramifications for economic policy as well. Socialism was no longer an economic model for most developing countries, and many of them embarked on policy reforms that included opening up to international trade. In January 1990, Mexican President Carlos Salinas de Gotari went to Davos, Switzerland, to attend the World Economic Forum, an international meeting of government officials and business leaders. The Salinas government had been seeking to modernize the Mexican economy by undertaking domestic reforms to improve productivity and make its producers more competitive in the world market.[3] Without major changes in policy, it was believed, the country's standard of living would only fall further behind that of other countries. In attending the meeting, Salinas hoped to draw attention to Mexico's reforms with the hope of attracting foreign investment.

Yet international investors were unimpressed by the modest Mexican initiatives; instead, the world's business community was transfixed by the new opportunities in Eastern Europe. The failure to get the world's attention convinced Salinas that Mexico had to do something big, like seek a free-trade agreement with the United States.[4] Mexico could only attract foreign investment, he and his advisers reasoned, if it became an export platform to the United States. And this could only happen if it had guaranteed access to the US market.

Officials at USTR were initially hesitant about starting negotiations with Mexico. They worried that the Mexican overture might not be serious and wanted to stay focused on completing the ongoing Uruguay Round (to be discussed shortly). To demonstrate the Salinas government's interest, Mexican officials approached James Baker, now secretary of state and the most influential cabinet member in the George H. W. Bush administration. The president and other senior administration officials saw the Mexican proposal as a historic opportunity. The United States had a history of troubled relations with Mexico, and a trade agreement would improve economic cooperation and deepen commercial ties with an important neighbor.[5] In June 1990, Bush and Salinas met in Washington and announced that the two governments would start preparatory work on a free-trade agreement. After initially demurring, Canada soon asked to join the negotiations.[6] In February 1991, the three countries announced their intention to start formal negotiations.

These initial steps would lead to one of the most contentious and divisive trade-policy debates in US history. The debate brought business interests, labor unions, and grass-roots political groups, most of which were opposed to any such agreement, into the policy arena. At issue was fear about what the agreement would mean for the country. This was the first time that the United States was negotiating a major bilateral trade agreement with a developing country. Although Mexico's economy was small compared to that of the United States, and most of its exports already entered duty-free under the Generalized System of Preferences (GSP), Mexican wages were considerably lower than those in the United States. The prospect of a free-trade agreement with such a country sparked fears about job losses from increased imports.

Before Mexico was willing to start the negotiations, the Bush administration had to renew its fast-track negotiating authority, which was due to expire in 1991. The 1988 Omnibus Trade Act had granted fast-track authority for three years with the possibility of a two-year extension, taking it to 1993, unless either the House or Senate objected. Under normal circumstances, the extension would be a routine matter, particularly because Congress strongly supported the ongoing GATT negotiations. But to almost everyone's surprise, the renewal sparked stiff opposition. Critics of the prospective agreement with Mexico were determined to defeat fast track in order to stop it even before any negotiations had begun. (As discussed in chapter 12, fast track was a procedure set out in the Trade Act of 1974 to accelerate congressional consideration of trade agreements reached by the executive branch.) Furious about the prospect of expanded trade with Mexico, labor unions led the opposition. By allowing Mexican goods to freely enter the United States, they believed the agreement would encourage American firms to move production or assembly operations to Mexico and take advantage of its low wages.[7] They saw the agreement as guaranteeing that its members would lose their jobs. As the AFL-CIO put it, "The proposed US-Mexico free trade agreement would be a disaster for workers in both countries. It would destroy jobs in the United States, while perpetuating exploitation of workers and inflicting widespread damage on the environment in Mexico. The beneficiaries would be multinational corporations and large banks."[8]

The prospective North American Free Trade Agreement (NAFTA) also drew the opposition of some domestic producers who felt threatened by Mexican competition, such as fruit and vegetable producers. But unlike previous trade battles, NAFTA elicited broad public disapproval that went well beyond producer and labor interests. Critics complained about the agreement's impact on the environment, working conditions, human rights, illegal drug trafficking, and immigration. Environmental groups feared that NAFTA would allow businesses to take advantage of Mexico's weak regulations and exacerbate pollution along the US-Mexico border. They also worried that it might lead to the relaxation of domestic environmental standards in order to keep industries located in the United States. Human rights activists worried about poor working conditions in Mexico and whether expanded trade would mean more exploitation and intensified poverty among rural farmers.

However, failure to grant the two-year extension of fast track would also jeopardize the conclusion of the ongoing Uruguay Round of GATT negotiations, which had broad political support. Even NAFTA skeptics in Congress did not want to put obstacles in the way of a new multilateral trade agreement. For this reason, Rep. Richard Gephardt (D-MO) announced that he would support fast track without necessarily endorsing any particular trade agreement. Most Democrats opposed killing fast track, but they allowed the question to be debated and brought to a vote. In May 1991, the House voted 231–192 against the resolution to stop fast track. The next day, the Senate rejected a similar resolution by a vote of 59–36. While the effort to stop fast track was defeated, these procedural votes demonstrated the political strength of NAFTA opponents.[9] The battle over fast track in 1991 was a prelude to the fight over NAFTA two years later.

The unexpected controversy over fast track was the first indication that trade politics was going to be different in the post–Cold War era. During the Cold War, expanding trade was seen as an important way of solidifying economic relations within the Western alliance, thereby promoting national security and countering the threat of Communism. With that threat gone, the foreign-policy rationale for rejecting the demands of domestic constituencies opposed to trade had diminished considerably. At the same time, the economic importance of labor-intensive industries most vulnerable to foreign competition, such as apparel, was shrinking rapidly, weakening their political clout. Now, more vocal opposition to freer trade came from a much broader group consisting of national labor unions, environmental groups, and human rights activists. The movement was spearheaded by organized labor, which was in the best position to make large financial contributions to members of Congress. The reciprocal trade agreements program had never been threatened by such public activism in the past, and this new opposition caught pro-trade business groups off guard.[10]

The renewal of fast track allowed the formal negotiation of NAFTA to begin in June 1991. The negotiating groups contended with many issues, including market access, rules of origin, agriculture, financial services, investment, and dispute settlement. The negotiations followed the template of the US-Canada FTA, but went beyond it in covering new areas such as intellectual property and transportation. By the time the NAFTA negotiations concluded fourteen months later, in August 1992, the agreement ran to more than two thousand pages in twenty-two chapters with numerous annexes.

The market-access provisions were the cornerstone of the agreement. On average, applied tariffs were 5 percent in the United States, 8 percent in Canada, and 12 percent in Mexico. However, non-tariff barriers raised the tariff equivalent to 9 percent in the United States, 12 percent in Canada, and 31 percent in Mexico.[11] Because its trade barriers were substantially higher, Mexico would have to do most of the liberalization, creating significant opportunities for US exporters. The agreement called for the gradual phaseout of all tariffs on North American trade in blocks of five, ten, or fifteen years, although some duties were abolished immediately. The United States requested a lengthy transition period for labor-intensive goods, such as footwear and garments, glassware, and brooms. In agriculture, import quotas were converted to equivalent tariff barriers and then phased out, with some exceptions for sensitive sectors (sugar and orange juice for the United States, corn and beans for Mexico). The United States also insisted on protection against import surges on agricultural goods, such as citrus fruits, tomatoes, onions, and watermelons.

A key issue was determining what constituted a "North American" product—that is, which products were eligible for duty-free treatment among the three countries. With each country continuing to apply their existing tariffs on imports from other countries, the different tariff levels across the three countries could give rise to "transshipment," in which goods would be imported into a low-tariff country and then shipped into a high-tariff country to evade those duties. For example, because the United States imposed a 25 percent tariff on imported trucks, other countries (such as Japan) might try to export trucks to Canada or Mexico and then ship them across the border into the United States to avoid paying the higher US duty. To prevent transshipment and ensure that only "Mexican" or "Canadian" goods received duty-free treatment in the United States, NAFTA established rules of origin. These rules mandated the minimal amount of North American content that any given product had to contain in order to qualify for duty-free status.

Rules of origin were particularly important in the case of automobiles. The US auto industry wanted high North American content rules to ensure that Mexico did not become an export platform for Japanese or other foreign producers who would simply send parts to Mexico for assembly and then ship the vehicles into the United States. In the US-Canada FTA, the domestic content rule was that 50 percent of the value of an automobile had to be of US or Canadian origin for it to qualify for duty-free treatment. For NAFTA, the United Auto Workers pushed for an 80 percent rule, Ford and Chrysler 70 percent, and General Motors 60 percent. Mexico and Canada wanted to keep the 50 percent requirement in the US-Canada FTA, but reluctantly accepted 60 percent. US negotiators had promised auto producers a number higher than 60 percent to prevent their opposition. While they were able to persuade Mexico to go to 65 percent, Canada remained firm at 60 percent and so the negotiators split the difference and arrived at a 62.5 percent rule.[12]

Rules of origin were also an issue for textiles and apparel, where US negotiators tried to ensure that US-made fabric would be used for all apparel made in Mexico. The agreement had a "yarn-forward" rule and "triple transformation test," in which eligible goods had to be cut and sewn in a NAFTA country from fabric woven in a NAFTA country from yarn made in a NAFTA country. These complicated regulations aimed to keep duty-free trade within North America.

On investment, NAFTA prohibited investment-related performance requirements, such as local content provisions and export performance mandates.[13] It also protected foreign investors against discriminatory treatment in the event of an expropriation or significant policy change affecting the value of their investments by requiring that governments pay compensation at fair market value. NAFTA's controversial chapter 11 allowed private investors to bring complaints about a possible breech of these obligations to a special arbitration body which would adjudicate any dispute. Foreign investment in the energy sector was a sensitive issue for Mexico, as it had been for Canada. The United States had to accept a provision in Mexico's constitution that banned foreign ownership in its oil and gas sector, although it persuaded Mexico to liberalize the procurement rules for the state oil monopoly.

In services, national treatment and most-favored-nation (MFN) standing were required as general principles, with special exceptions applying in case of telecommunications, financial services, and transportation. Canada insisted on preserving its cultural exemption that limited foreign media participation, including television and radio, magazines and newspapers. Other provisions of NAFTA dealt with intellectual property, government procurement, competition policy, and dispute settlement.

When the NAFTA negotiations concluded in August 1992, the United States was in the midst of the presidential election campaign, which only served to draw more critical attention to it. Furthermore, the economy was just emerging from a brief recession in 1990–91. Although the downturn was mild compared to the early 1980s, the sluggish recovery of employment made voters sensitive to the argument that NAFTA would cost American jobs. Conservative commentator Pat Buchanan, a candidate in the Republican primary, stoked up fears by warning that NAFTA would devastate the middle class and harm blue-collar workers. In the Democratic primary, several candidates argued that the agreement would damage the economy and destroy jobs. The wild card in the election was Ross Perot, a Texas billionaire with a surprisingly strong third-party candidacy. Perot warned that if NAFTA was enacted, "you are going to hear a giant sucking sound of jobs being pulled out of this country."[14] The phrase "a giant sucking sound" became the most memorable sound-bite of the entire NAFTA debate and summed up the country's fears about expanding trade with its low-wage neighbor. Perot went on to capture 19 percent of the popular vote in the election, an astonishingly large share for a third-party candidate, and became the public face of the anti-NAFTA campaign after the election.

While President Bush strongly supported the agreement, his Democratic challenger approached NAFTA with caution. A Southern Democrat from Arkansas, Bill Clinton was a "New Democrat" who advocated centrist economic policies that rejected the protectionist approach of labor unions and Northern Democrats from the Rust Belt.[15] Clinton was favorably disposed to NAFTA, but the anti-NAFTA states of Ohio and Michigan were critical to winning the election. For much of the campaign, he hedged his position, supporting the idea of a trade agreement in principle but uncommitted about the agreement in hand. Finally, in a campaign speech in October 1992, Clinton announced his support for the agreement, provided it protected labor and the environment. "The issue is not whether we should support free trade or open markets. Of course we should," he said. "The real question is whether or not we will have a national economic strategy to make sure we reap its benefits."[16]

Clinton defeated Bush in the 1992 election, and thus NAFTA's fate hinged on a Democratic president who had not negotiated it. In his memoirs, Clinton (2004, 432) recalled, "I was a free-trader at heart, and I thought I had to support Mexico's economic growth to ensure long-run stability in our hemisphere." He viewed the agreement as marking a historic break from the mutual suspicion and lack of cooperation that had characterized the bilateral relationship for so long. Clinton and his economic advisers supported freer trade, but his political advisers opposed fighting for a trade agreement that would divide the party and offend many Democratic constituencies.

In February 1993, just weeks after taking office, President Clinton delivered a major address that acknowledged America's "mixed feelings" about globalization. Clinton explained that rapid changes in the world economy would inevitably affect the United States and bring with it uncertainty about the future. But the country had no choice but to adapt to this new environment, he insisted, because "open and competitive commerce will enrich us as a nation." Therefore, "in the face of all the pressures to do the reverse, we must compete, not retreat." The United States must "seek to open other nations' markets and to establish clear and enforceable rules on which to expand trade."[17] Going beyond economics, he pointed to the larger implications of the new global economy: "American jobs and prosperity are reason enough for us to be working at mastering the essentials of the global economy. But far more is at stake, for this new fabric of commerce will also shape global prosperity or the lack of it, and with it, the prospects of people around the world for democracy, freedom, and peace."[18]

Following the president's campaign pledge, US Trade Representative Mickey Kantor began negotiating side agreements to NAFTA concerning labor and the environment. (The text of NAFTA itself was not open for renegotiation, since it had been signed by President Bush in December 1992.) These negotiations took from April to August 1993. The side agreements had both a substantive and a political purpose. The substantive purpose was to strengthen the agreement by setting up tri-national commissions to deal with labor and environmental disputes. The political purpose was to weaken the opposition to NAFTA by giving undecided members of Congress the political cover they needed to support it.[19]

The anti-NAFTA movement was large and well organized for the looming battle in Congress. The AFL-CIO strongly opposed the agreement and led dozens of other unions in the fight. The major theme of the anti-NAFTA campaign was that it would cost American jobs. NAFTA "would be a disaster for millions of working people in the United States, Canada and Mexico," the head of the AFL-CIO maintained, because it is based "solely on exploitation. It would destroy jobs and depress wages in the US and Canada. . . . It should be rejected and renegotiated to advance the overall public interest."[20] "This agreement is not about free trade," it was argued, but "about guaranteeing the ability of US investors to move plants to Mexico to take advantage of cheap wages and poor working conditions in producing goods for export to the US market."[21] This opposition was not difficult to understand: manufacturing workers had been hard-hit in the 1980s, and membership in labor unions had fallen from 22.2 million in 1975 to 16.6 million in 1991.[22] NAFTA was a major test of the labor movement's strength within the Democratic party.

While the labor side agreement did nothing to reduce union opposition to NAFTA, the environmental side agreement split the conservation movement. The World Wildlife Fund, the National Wildlife Federation, the Audubon Society, and the Environmental Defense Fund came to see NAFTA as helping to achieve environmental objectives. If NAFTA modernized the Mexican economy and made it more prosperous, it was argued, the country would have the ability to adopt newer, cleaner production technology and have the resources to clean up the environment. Other organizations, including the Sierra Club, Friends of the Earth, and Greenpeace, strongly opposed NAFTA, believing that the side agreement was a sham and that uncontrolled economic growth would simply lead to further environmental degradation.

A wide range of other groups—the Americans for Democratic Action, the Evangelical Lutheran Church in America, lay Catholic organizations, the Congressional Black Caucus, and the American Federation of State, County, and Municipal Employees (AFSCME)—also opposed the agreement. The civil rights activist Jesse Jackson said "NAFTA is a shafta, shifting our jobs out of the country."[23] Public Citizen, an advocacy group founded by the consumer advocate Ralph Nader, argued that NAFTA was undemocratic. As he put it, "From its morbidly secretive conception by corporate lobbyists and their Bush administration allies, to the fast-track procedural straitjacket that prohibits amendments to NAFTA, to the decisions by the inaccessible international tribunals that are alien to this country's jurisprudential practices, NAFTA diminishes US democracy."[24] Public Citizen contended that the agreement would only benefit multinational corporations and harm marginalized minority groups such as the poor, although Hispanics tended to favor the agreement. Anti-NAFTA activists also capitalized on Mexico's poor image in the United States, where many viewed the country as dirty, corrupt, and run by drug lords and political elites.

Former presidential candidate Ross Perot, who coined the memorable phrase "giant sucking sound" referring to jobs being lost to Mexico, also mounted a formidable grass-roots campaign against NAFTA. Perot's book, *Save Your Job, Save Our Country: Why NAFTA Must Be Stopped*, portrayed NAFTA as a conspiracy of big business and foreign agents that would enrich multinational companies at the expense of the average worker. Its main message was that NAFTA "will pit American workers against Mexican workers in a race to the bottom. In this race, millions of Americans will lose their jobs." Perot also hammered away at the idea that the agreement would "radically reduce" the nation's sovereignty and complained that foreign lobbying for NAFTA was distorting the American political process. (USTR issued a seventy-four-page rebuttal attacking the book's "false and misleading" claims.)

The loud voices in the public debate against NAFTA drowned out the quiet but powerful producer interests that supported NAFTA. The National Association of Manufacturers and the Chamber of Commerce supported the agreement. The Chamber argued that the agreement would "create more jobs, lower prices for consumer goods, and strengthen competitiveness for American firms at home and abroad."[25] Midwestern farmers also saw tremendous opportunity for increased agricultural exports to Mexico, although citrus growers in Florida, vegetable farmers in California, and sugar producers in Florida feared imports from Mexico.[26]

The textile and apparel industry was divided over NAFTA. The textile industry believed it might gain from NAFTA because the rules of origin required that any clothing imported from Canada or Mexico had to be made from North American yarn and fabric to receive duty-free treatment. The textile producers hoped that these rules would allow them to become the main supplier of fabric for apparel producers in Mexico. Of course, the labor unions in the textile and apparel industry remained adamantly opposed. The industry's divisions and inability to speak with one voice effectively neutralized it as an anti-NAFTA force.

The intense hostility directed against NAFTA seemed out of proportion to the economic stakes involved. The Mexican economy was just 4 percent of the size of the US economy. Nearly half of US imports from Mexico already entered duty-free under the Generalized System of Preferences (GSP) or at reduced rates under the *maquiladora* production-sharing arrangement. The remainder of Mexico's exports to the United States faced an average tariff of about 4 percent, although it was higher on most labor-intensive goods. Even without NAFTA, there was nothing stopping American firms from moving their production to Mexico. Meanwhile, Mexican barriers against US exports were significantly higher than US barriers against Mexican exports, so proponents of NAFTA could legitimately argue that the agreement would help "level the playing field" in terms of market access.

For these reasons, the International Trade Commission's study of NAFTA concluded that it would benefit the economy but that the overall gains were likely to be small. NAFTA was projected to increase US real GDP by 0.5 percent or less, the ITC (1993, 2/3–4) suggested; such a small number was "to be expected due to the vast difference in size between the Mexican and US economies as well as the initial low level of US trade barriers." While an agreement would significantly affect bilateral trade in certain goods, the change in trade would likely have a negligible impact on production levels in most industries. Furthermore, the ITC concluded that NAFTA "is likely to have little or no effect on employment levels in the United States, but it could cause some shift in employment among occupations" with sizeable job losses in only a few industries, such as apparel, household appliances, sugar and ceramics, offset by job gains in export industries. The report predicted that average wages would rise a negligible amount, but noted that "the preponderance of evidence indicates an almost indiscernible effect on US wage rates for both low-skilled and high-skilled groups."

Economists generally agreed with these conclusions and supported NAFTA. More than three hundred economists of all political stripes, including several Nobel laureates, signed a petition endorsing the agreement. Paul Krugman (1993) summarized NAFTA in five simple propositions: (1) that it would have no effect on the number of jobs in the United States; (2) that it would not hurt and might help the environment; (3) that it would produce a small gain in real income for the United States; (4) that it would probably lead to a slight fall in real wages of unskilled American workers; and (5) that NAFTA was really a foreign-policy issue rather than an economic issue. Along with most economists, Krugman (1993, 13) believed that "the intensity of this debate cannot be understood in terms of the real content or likely consequences of the agreement, nor is the debate's outcome likely to turn on any serious examination of the evidence." Instead, he argued, "the hard-core opposition to NAFTA is rooted in a modern populism that desperately wants to defend industrial America against the forces that are transforming us into a service economy. International trade in general and trade with Mexico in particular have little to do with those forces; clinging to the four percent average tariff the United States currently levies on imports of manufactures from Mexico might save a few low-wage industrial jobs for a little while, but it would do almost nothing to stop or even slow the long-run trends that are the real concern of NAFTA's opponents."

Other economists viewed the agreement more positively. In a widely cited study by the Institute for International Economics, Hufbauer and Schott (1993, 14) concluded that "NAFTA will exert a modest but positive effect on the US labor market." They projected that NAFTA would create 171,000 net new jobs in the United States within five years on the assumption that exports to Mexico would continue to grow more rapidly than imports from Mexico. NAFTA opponents countered that the economic impact would be large and negative, not small and positive. A study sponsored by the AFL-CIO predicted job losses of 550,000 due to greater imports from Mexico, based on the assumption of "investment diversion" that US firms would invest less at home and more in Mexico as a result of NAFTA.[27]

With both sides trying to undercut the others' arguments, the acrimonious debate made it difficult for the American public to understand the potential impact of the agreement. Claims that NAFTA would destroy jobs, reduce wages, increase immigration, and harm the environment were met with counterclaims that NAFTA would create jobs, increase wages, decrease immigration, and improve the environment. While NAFTA opponents argued that the agreement would have a big, negative impact, most standard analyses pointed to a small, positive impact overall, even if some unskilled workers stood to lose. Nevertheless, the fears resonated with the public at large: "A belief that NAFTA would destroy hundreds of thousands of jobs, devastate the environment, undermine democracy, or threaten American society certainly is more compelling [to the public] than a belief that NAFTA would have only modest effects," Mayer (1998, 270) noted. Consequently, in the political debate, some of the small, positive impacts were gradually exaggerated to become larger impacts, because few politicians would be willing to fight for something where the gains were small, but the opposition was fierce. "The anti-NAFTA people are telling malicious whoppers," Krugman observed, while "the pro-NAFTA side is telling little white lies."[28]

By the summer of 1993, the prospect that Congress would approve NAFTA looked bleak. The anti-NAFTA groups had been working hard for months to convince the public to oppose it, pounding away with the argument that NAFTA would destroy jobs and hurt workers. "The domestic grassroots opposition to NAFTA was based less on what NAFTA *was* and more on what it *symbolized*," Mayer (1998, 257, 266) observed. "NAFTA stood for all that had happened to American workers in the 1980s and all they feared for the future."[29] During the August congressional recess, members of Congress went back to their districts and only heard bad things about the agreement from their constituents. When Congress reconvened in September 1993, most political observers believed that NAFTA was dead. Key Democratic leaders in the House, including Majority Leader Richard Gephardt (D-MO) and Chief Whip David Bonior (D-MI), opposed the agreement.[30] Rank-and-file Democrats feared electoral retribution from labor unions if they supported it.

Meanwhile, the proponents were largely silent. The administration had only completed the side agreements in August and had yet to focus on making the public case for NAFTA. The president supported NAFTA but was prone to indecision. As late as mid-summer, a fierce debate still raged within the administration about whether he should make an all-out push for NAFTA, knowing that it would divide the party, or focus on another issue (such as health care) around which Democrats could unite. The president's political advisers opposed investing much time and effort in fighting what they thought would be a losing battle for NAFTA, while his economic advisers, including Treasury Secretary Lloyd Bentsen (a former senator from Texas), were strong supporters. According to Harris (2005, 95), "It was Bentsen who had the decisive voice in answering the political team's objections—and Clinton's anguished doubts. At a cabinet meeting, he slammed his fist down on the table for emphasis in front of the president. The gesture stilled the room. NAFTA was not merely good policy, he argued, it was shaping into a critical test of the president's own principles. Did he have the nerve to fight for them?" Shortly after that, Clinton (2004, 540) decided that he was "ready to go all out to pass NAFTA in the Congress."[31]

The Clinton administration faced a major uphill battle and had only two months to energize the business community and build congressional support for NAFTA before the scheduled vote in mid-November. The magic number of votes required for the House to approve NAFTA was 218. About 120 Republicans were expected to support it, meaning that 100 House Democratic votes were also needed. The administration was far short of that mark: Democrats opposed to the agreement far outnumbered those in support, and public opinion was running strongly against the agreement, making it extremely difficult for the many undeclared members to announce their support.

In mid-September 1993, Clinton kicked off the campaign to win congressional and public support for NAFTA by signing the labor and environmental side agreements. He was joined at the White House by three former presidents, who offered their strong support. The president argued that "this debate about NAFTA is a debate about whether we will embrace these changes [in the global economy] and create the jobs of tomorrow, or try to resist these changes, hoping we can preserve the economic structures of yesterday." Clinton acknowledged the public's fear of change and said,

> It is clear that most of the people that oppose this pact are rooted in the fears and insecurities that are legitimately gripping the great American middle class. It is no use to deny that these fears and insecurities exist. It is no use denying that many of our people have lost in the battle for change. But it is a great mistake to think that NAFTA will make it worse. Every single solitary thing you hear people talk about, that they're worried about, can happen whether this trade agreement passes or not, and most of them will be made worse if it fails.[32]

He also highlighted the foreign-policy implications of the agreement: "For decades, we have preached and preached and preached greater democracy, greater respect for human rights, and more open markets to Latin America." NAFTA, he said, finally gave the United States an opportunity to advance these goals.[33]

Thus began a massive campaign to push NAFTA through Congress. The administration tried to shift the debate from how much more the United States would import from Mexico to how much more it would export to Mexico. NAFTA would give the United States preferential access to Mexico's market, giving its firms a competitive advantage over exporters from Europe and Japan. Officials argued that NAFTA, by reducing trade barriers in Mexico, would create an export boom, creating two hundred thousand jobs over two years and up to a million jobs over five years. More trade and investment would help raise Mexican wages and standards of living, thereby reducing immigration into the United States. The administration repeatedly argued that a rejection of NAFTA was a validation of the status quo, which no one found acceptable. All of the problems that the United States had with Mexico, ranging from weak labor and environmental standards to immigration and drug trafficking, existed without NAFTA and would not change if it was defeated. No one promised that NAFTA would be a panacea, supporters argued, but the agreement was potentially part of the solution to these problems, or at least a step in the right direction.

While the president and his team were mainly worried about securing Democratic support for NAFTA, they had to keep Republicans on board as well. In mid-October, Minority Whip Newt Gingrich (R-GA) complained that Clinton's efforts on behalf of the agreement had been "pathetic." Gingrich warned the president that unless he got personally involved and went all-out to ensure the support of 100 House Democrats, the 120 House Republican votes needed to win could not be guaranteed. This criticism spurred Clinton to become more directly engaged in the political battle. Recognizing that NAFTA was a significant test for his presidency, Clinton and top administration officials spoke personally with about two hundred members of Congress. "I courted some of these congressmen longer than I courted my wife," Treasury Secretary Bentsen quipped.[34] James Robinson, the CEO of American Express and head of the Business Roundtable, urged other business leaders to call at least three members of Congress every day and encourage them to support NAFTA.

Undecided members faced intense pressure from both sides to declare their voting intentions. In September, surveys indicated that House members opposed the pact by 43 percent to 38 percent, with 19 percent taking no position. By November, the president's efforts began to pay off: nearly three-quarters of the 83 undecided members decided to support the agreement, and some even moved from declared opposition to declared support. Many members of Congress recognized that NAFTA was, in the long run, a good idea, but they feared the political consequences of supporting the agreement in the face of public opposition. To give undecided members the political cover they needed to support NAFTA, the administration unveiled a special trade adjustment assistance program to cushion the blow to displaced workers.

As the administration stepped up its efforts to get NAFTA through Congress, labor unions also got more aggressive in their opposition.

Unions threatened to withhold campaign contributions from Democrats who voted for NAFTA, one leader warning those who did so, "We're gonna whip your ass and throw you out of office." The president infuriated labor leaders by accusing them of using "roughshod, muscle-bound tactics." "We're not threatening anybody," replied a high-ranking AFL-CIO official, but "if you vote to ship jobs of our members out of this country, we're not going to support you anymore." The bitter recriminations strained relations among the traditional Democratic allies.[35]

Two weeks before the scheduled vote, the prospects for NAFTA's passage still looked bleak. House leaders David Bonior and Richard Gephardt went to the White House and offered to postpone the vote so that the president could avoid a humiliating defeat, but Clinton refused. Eight days before the House vote, Vice President Al Gore and Ross Perot debated NAFTA on CNN's "Larry King Live." By all accounts, the well-prepared Gore trounced Perot, who came across as testy and unfocused. (As one newspaper headline put it, "Ross Gets Gored.") Gore emphasized that improved access to the Mexican market would increase exports and create jobs in the United States. Reminding viewers that the United States was already open to imports from Mexico, he stressed that NAFTA would help level the playing field for US exports by reducing Mexican trade barriers. He pressed Perot to describe how he would change the agreement or what his alternative to NAFTA would be, but Perot could not give a good answer. Perot lost significant credibility as a result of his poor performance. One poll found that 59 percent of viewers said that Gore had the better argument, while only 22 percent thought Perot did.[36]

These efforts on behalf of NAFTA even began to shift public opinion in its favor. In September, one poll found that 25 percent of Americans favored NAFTA, and 36 percent opposed it; by mid-November, the same poll found 36 percent favored NAFTA, and 31 percent opposed it.[37] While some minds were being changed, more significant was the fact that undecided voters, like undecided members of Congress, were breaking in favor of the agreement. The administration and business supporters succeeded in countering the opponents on the economic implications of the agreement, even on the sensitive issue of jobs. They were also clearly winning the argument on the foreign-policy dimensions of the agreement by asking the broader question: What would it say about the character of the United States if it rejected an agreement that would strengthen ties with an important neighboring country?

In the final days before the scheduled House vote, the administration pulled out all the stops in order to win the support of 218 representatives.

Many undeclared members delayed announcing their voting intention until the last possible minute either to avoid political attacks on themselves or to extract further concessions from the administration.[38] A large block of undecided House members from Florida and Louisiana held out for concessions on sugar, citrus fruits, and winter vegetables (such as tomatoes). The administration vowed to use price supports to help vegetable growers if imports caused domestic prices to fall and pressured Mexico into modest changes that would make it more difficult for them to export sugar. (Mexican officials, who were counting the House vote as well, had little choice but to agree.) As a result, the Florida Fruit and Vegetable Association, Gulf Citrus Growers, and others dropped their opposition to NAFTA, and the administration picked up about twenty-five votes. An additional five Midwestern votes were won on promises to investigate Canadian wheat subsidies, while four southern votes were secured by promising to protect apparel manufacturers from cheap imports in the Uruguay Round.[39] Ross Perot complained that "no votes were changing until the pork started flowing."[40]

On November 17, 1993, the House prepared to vote on NAFTA. The floor debate took eleven hours, and 240 members gave speeches. David Bonior (D-MI) gave a rousing and emotional address in which he attacked NAFTA as "a bad deal" that would "drive down our standard of living" and "lock in place a Mexican system that exploits its own people and denies them the most basic political and economic rights." He continued, "The working people who stand against this treaty don't have degrees from Harvard. They don't study economic models. And most of them have never heard of Adam Smith. But they know when the deck is stacked against them. They know it's not fair to ask American workers to compete against Mexican workers who earn $1 an hour. The work of America is still done by people who pack a lunch, punch a clock and pour their heart and soul into every paycheck. And we can't afford to leave them behind."[41]

Minority Leader Robert Michel (R-IL) gave a spirited defense of the agreement, pleading with his colleagues, "Do not sacrifice the jobs of tomorrow to the fears of today." He drew laughter for his description of "the three most famous non-elected opponents of NAFTA: Ross Perot, Pat Buchanan, and Ralph Nader—the Groucho, Chico, and Harpo of the NAFTA opposition" (a reference to the Marx Brothers comedy trio) whose "only response to the challenges of global competition is to retreat, whine and whimper."[42]

At 10:26pm that evening, the most epic trade-policy battle in Congress since the end of World War II concluded when the House approved NAFTA by a vote of 234–200, a wider margin than expected. The Clinton administration had organized an impressive come-from-behind victory. House Speaker Thomas Foley (D-WA) called NAFTA "the Lazarus Act" because it had been miraculously raised from the dead.[43] The anti-NAFTA activists, who had invested so much time and energy into defeating the agreement, suffered a crushing defeat.[44]

By its own admission, the administration could not have won without the support of Republicans, who voted 132–43 in favor. Democrats voted 156–102 against the agreement (along with one independent), with Northern Democrats voting 124–49 against, and Southern Democrats voting 53–32 in favor. Clinton later "speculated that NAFTA would be at least thirty votes closer to a majority if Congress had a secret ballot," but in his view "the substance of NAFTA consistently lost to raw politics, with heavy pressure especially from trade unions."[45]

The geography of the House vote on NAFTA is shown in figure 13.1. Most of the support came from west of the Mississippi River, particularly the Southwest, while the East was divided. A number of subsequent studies have tried to explain the reasons for the votes of individual members.[46] According to Magee (2010), the chances of NAFTA passing would have been significantly lower had Republican George H. W. Bush been reelected in 1992, because that would have reduced Democratic support for the agreement. In contrast to the ferocious battle in the House, the Senate eas-

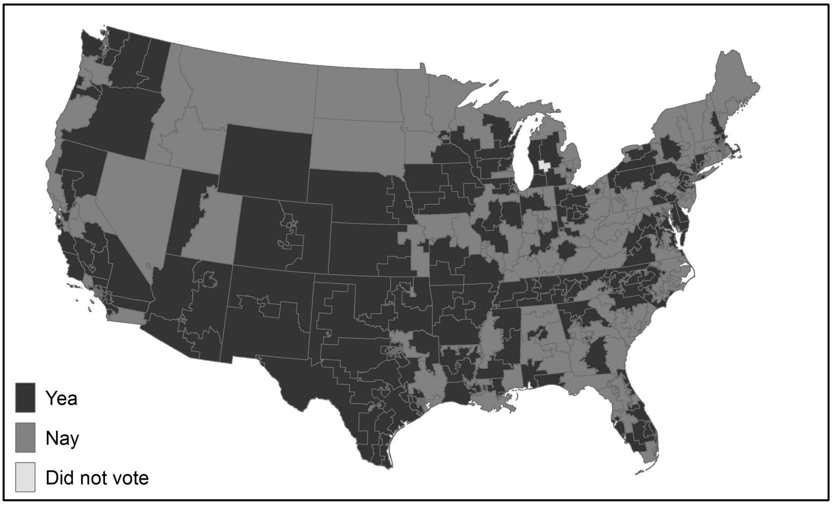

Figure 13.1. House vote on NAFTA, November 17, 1993. *Note*: Alaska and Hawaii voted nay. (Map courtesy Citrin GIS/Applied Spatial Analysis Lab, Dartmouth College.)

ily approved NAFTA three days later by a vote of 61–38; Republicans voted 34–10 in favor and Democrats split 28–27 against. NAFTA took effect on January 1, 1994, although tariffs were phased out over a decade.

What was the economic impact of NAFTA? For all the fears about a "giant sucking sound," the United States experienced an exceptionally strong labor market in the mid- to late-1990s. The unemployment rate fell to less than 4 percent by late 2000, manufacturing employment held steady, and wages rose even for less-skilled workers. Imports did not cause a pronounced increase in worker displacement. While NAFTA accelerated the decline in apparel employment, studies showed that the agreement did not have a major impact on either net employment or gross job flows in other trade-affected industries.[47]

Later studies found that NAFTA had a substantial impact on trade but modest effects on prices and welfare.[48] NAFTA promoted rapid growth in bilateral trade, and the North American economy became more integrated. While critics focused on the growth of imports from Mexico, about 40 percent of the value of those imports consisted of US-made intermediate goods and components, although this suggested the loss of some labor-intensive assembly jobs. In all, NAFTA did not exacerbate or ameliorate many of the existing problems facing the two economies. In retrospect, Hufbauer and Schott (2005, 4) point out that "much of what was promised from NAFTA could never be achieved solely through a free trade deal; much of what has occurred since NAFTA was ratified cannot be attributed to policy changes that the trade pact mandated."

However, the US bilateral trade surplus quickly turned to deficit when Mexico was struck by a financial crisis in late 1994. The crisis plunged Mexico into a severe recession, and the peso plummeted against the dollar. Because some forecasts of net job creation as a result of NAFTA hinged on the continued growth of the trade surplus, critics pointed to the sudden appearance of a trade deficit to claim that jobs had been lost as a result of the agreement. While NAFTA itself had nothing to do with the Mexican financial crisis, which had been brewing for several years, this turn of events bred skepticism about claims that trade agreements would lead to domestic employment gains.

Mexico's economic crisis made it difficult to isolate the immediate impact of NAFTA, although the country's economic performance eventually began to improve. NAFTA's biggest impact may have been political: it contributed to the modernization drive that helped diminish the power of the Institutional Revolutionary Party (PRI) that had ruled the country for decades and move the country toward multiparty democracy. As Preston and Dillon (2004, 226) note, NAFTA "forced Mexicans to rethink the defensive, self-isolating nationalism that was a key article of the PRI revolutionary doctrine. Whereas the traditional PRI regarded the United States as an imperialist bully, NAFTA called on Mexicans to see their neighbor as a partner, even a friend." Beyond the economic effects of the agreement, NAFTA had a lasting impact on American trade politics. The bitter divisions among Democrats over NAFTA were still felt a quarter of a century later.

THE URUGUAY ROUND

On December 15, 1993, less than a month after Congress approved NAFTA, representatives from 117 countries concluded the Uruguay Round of multilateral trade negotiations. After seven years of negotiation, the Uruguay Round produced sweeping agreements that would reshape world trade and trade policy into the twenty-first century. President Clinton hailed the outcome as "the largest, most comprehensive set of trade agreements in history."[49] Among other things, the participants abolished the Multifiber Arrangement (MFA), reformed agricultural trade policies, extended rules to new areas (e.g., services), protected trade-related intellectual property rights, created a more effective dispute-settlement system, and established the World Trade Organization.

To appreciate the significance of the Uruguay Round, we must recall the trade-policy environment of the early 1980s, when the United States struggled to get other countries to agree to launch a new round of trade negotiations. As chapter 12 recounted, the GATT seemed increasingly irrelevant by the end of the 1970s. GATT provisions were often ignored as export-restraint agreements proliferated and agricultural subsidies grew. The United States, of course, was far from blameless for this situation, but it was virtually alone in wanting to do something about it.

US officials believed that the GATT did not address the realities of modern trade and were anxious to repair the holes in its framework. Agricultural policies highly distorted world markets through a complex array of production subsidies, export subsidies, and import controls, all of which had been untouched by previous negotiations. GATT rules did not restrict the use of export-restraint agreements, export and domestic subsidies, and other non-tariff barriers, all of which were becoming increasingly widespread. Noncompliance with its rules was a growing problem because the GATT lacked an effective enforcement mechanism. In addition, new trade issues had arisen that existing rules did not address. The GATT had no provisions for trade in services—banking and financial services, maritime and transportation services, construction and legal services, and so forth—that were of growing importance in world trade. The United States was also concerned about the proliferation of counterfeit goods and the infringement of copyrights, trademarks, and patents in many countries. The violation of intellectual property protection had become a major issue for high-technology, entertainment, and pharmaceutical industries.

A new GATT round was also believed to be necessary because the landscape of world trade had changed significantly since the Tokyo Round of the 1970s. Back then, just a few developed countries—the United States, the EEC, Japan, Canada, and some others—were involved in the negotiations to reduce tariffs and establish rules and disciplines on policy measures. Developing countries accounted for a small share of world trade and did not participate. By the late 1970s, East Asian countries were a rapidly growing part of world trade and wanted to reduce the barriers that hindered their exports of labor-intensive goods, particularly textiles and apparel. In addition, developing countries were now a rapidly growing market for exports from developed countries. The United States maintained that developing countries could no longer "free ride" on the tariff cuts made by developed countries. The US position was that the rules of the GATT should apply to everyone and that developing countries should be required to participate in the reduction of trade barriers.

In his 1985 State of the Union message, President Reagan repeated the call for a new round of multilateral trade negotiations and followed up at a G-7 meeting of world leaders. In September 1986, at Punta del Este, Uruguay, representatives from more than a hundred countries agreed to start the Uruguay Round, the seventh round of negotiations under the auspices of the GATT. The round was scheduled to end in December 1990, but actually continued for another three years.[50]

The Uruguay Round had a wide-ranging agenda. Most previous rounds had focused almost exclusively on tariffs on industrial goods, although the Tokyo Round also addressed non-tariff barriers, subsidies, and government procurement. In the Uruguay Round, separate negotiating groups dealt with tariffs, non-tariff measures, tropical products, natural resource products, textiles and clothing, agriculture, GATT articles, safeguards, most-favored-nation agreements, subsidies and countervailing measures, dispute settlement, trade-related investment measures, trade-related intellectual property rights, and the functioning of the GATT system. Congress set out the US negotiating objectives in the Omnibus Trade and Competitiveness Act of 1988, which were to achieve "(1) more open, equitable, and reciprocal market access; (2) the reduction or elimination of barriers and other trade-distorting policies and practices; and (3) a more effective system of international trading disciplines." The United States was largely responsible for ensuring that the negotiations covered new issues, such as agriculture, services, trade-related intellectual property (TRIPs), and trade-related investment measures (TRIMs).

The United States insisted that agriculture be part of the negotiating agenda because it wanted to reduce or eliminate trade-distorting farm-support programs, particularly the EEC's Common Agricultural Policy (CAP). The CAP not only closed the European market to agricultural imports, but high subsidies shifted Europe from being a net purchaser of many commodities to having large surplus production. This surplus production was often dumped onto world markets with large export subsidies. As we saw in chapter 12, the United States responded by creating the Export Enhancement Program (EEP) to subsidize its own wheat exports and later other crops, such as cotton. The US-EEC subsidy war drove down world grain prices and harmed agricultural exporting nations that did not employ subsidies. These countries, including Australia, Canada, New Zealand, Argentina, Brazil, and Uruguay, among others, formed the Cairns group to demand the elimination of all export subsidies and the opening of agricultural markets.

Research by the Organization for Economic Cooperation and Development (OECD) also drew attention to the market distortions and financial costs of existing agricultural policies. The OECD found that government subsidies for agriculture cost billions of dollars and took a variety of forms, usually price supports backed by export subsidies. The OECD calculated that producer subsidy equivalents—the percentage of farm income derived from government subsidies—amounted to 22 percent for the United States, 39 percent for the European Community, and 64 percent for Japan in 1986–88.[51]

The United States proposed the elimination of all trade-distorting agricultural subsidies by the year 2000. At the very least, the United States wanted income support for farmers "decoupled" from production decisions to reduce the incentives for overproduction that so distorted world markets. The United States and the Cairns group put European negotiators, whose mandate was to preserve the CAP with minimal reforms, on the defensive. The United States made repeated threats to retaliate against Europe if no agreement was reached.

The United States was also interested in extending existing GATT rules, such as nondiscrimination and national treatment, to trade in services. Services included a wide range of activities, including financial services (banks, insurance, and accounting), professional services (legal, educational, and medical), and business services (advertising, consulting, construction, and design). The United States had a substantial export surplus in services and was well positioned to capitalize on this growing area of trade. At the same time, the United States wanted some services (air and maritime transport and some financial services) off the negotiating table.

The United States also sought an agreement on trade-related investment measures (TRIMs) so that American companies operating abroad would receive the same "national treatment" as local companies and not face discriminatory barriers. Developing countries resisted US demands to eliminate local-content and export-performance requirements as conditions for foreign direct investment. However, the TRIMs negotiations lacked a focused agenda and were generally considered to be the "most frustrating and least productive" part of the round.[52]

The United States was initially alone in pushing trade-related intellectual property (TRIPs) onto the agenda.[53] American firms had long complained about the need to protect their products against foreign counterfeit goods in such industries as apparel (brand names and designer wear), entertainment (music and motion pictures), and high technology (semiconductors and software). In all of these industries, illegal reproduction, design theft, and counterfeiting were growing problems. Since most countries could not condone stealing, at least publicly, the US objective did not raise much opposition in principle, but coming up with specific rules and enforcing them was another matter. In fact, many developing countries recognized that they would need to provide greater intellectual property protection if they were to attract foreign investment and promote local innovation. However, the US desire to obtain stronger patent protection for the pharmaceutical industry was particularly controversial. This raised the sensitive issue of the pricing of medicines in developing countries, which had an interest in obtaining inexpensive generic drugs.

Since the protection of intellectual property was given such a high priority by the United States, other countries recognized that some agreement had to be included in any final deal.[54] The unspoken threat that hung over the negotiations was that, if other countries did not agree to establish rules in this area, the United States would determine by itself what constituted proper protection of intellectual property and use trade sanctions through section 301 and Super 301 to enforce its interpretation. Because other countries strongly objected to such unilateral actions by the United

States, they were willing to agree to an accord on TRIPs and to establish binding rules on dispute settlement.

The negotiations also reduced tariffs and eliminated major trade barriers, particularly export-restraint agreements. India, Pakistan, Indonesia, and other developing countries believed that the Multifiber Arrangement (MFA) held back their textile and apparel exports and should be dismantled without delay. They viewed the abolition of the MFA as an obligation, not a concession, on the part of developed countries. The United States initially resisted the elimination of the MFA, proposing instead a system of global export quotas (instead of country-by-country quotas), a position shared only by Canada. After President Bush vetoed a bill calling for tighter import quotas, however, the administration backed the gradual phaseout of the MFA to facilitate an agreement on TRIPs.

The United States also wanted to eliminate other managed trade arrangements, such as voluntary export restraints, orderly marketing arrangements, and so forth. This would mean abolishing the more than two hundred export-restraint agreements that had sprung up in the 1970s and 1980s.[55] If a country wanted to protect domestic producers from foreign competition, it would have to invoke the escape clause or apply antidumping and countervailing duties rather than seek export restraints. At the same time, the United States was reluctant to modify its antidumping and countervailing duty laws, which other countries thought were abused for purely protectionist purposes.[56]

The negotiating group on the Functioning of the GATT System sought to address other weaknesses in the existing framework. There was a consensus that an effective dispute-settlement system should be established and integrated across the different Uruguay Round agreements. Countries wanted to have a dispute-settlement system "both as a means of defending their interests in specific disputes, and as a broad guarantee of their existing rights and of the value of the new commitments they were hoping to negotiate in the Uruguay Round."[57] The United States was virtually alone in having the power to enforce agreements for itself through section 301 and the threat of retaliation; smaller countries were unable to do so because other countries would not take their threats of retaliation seriously. Smaller countries were determined to address this power imbalance by establishing an impartial process for settling disputes that would be equally available to all countries. This would end the unilateral enforcement of US claims of trade rights and allow other countries to hold the United States accountable for its own trade policies as well. Despite the bitter foreign complaints about section 301, the director-general of the GATT, Arthur Dunkel, suggested that its aggressive use in the late 1980s was one of the best things the United States ever did for the GATT: instead of undermining the rules-based multilateral trading system, the US deployment of section 301 helped unite the world behind the idea of strengthening that system.[58]

Making the GATT a formal international organization was also discussed. Ever since 1947, the GATT had "provisional status" on the assumption that it would be superseded by the International Trade Organization (ITO), which never came into being for lack of congressional support, as discussed in chapter 10. The GATT had a small secretariat, but it had little formal standing compared to the International Monetary Fund and the World Bank. In 1990, John Jackson, a University of Michigan law professor, suggested that a permanent international trade organization be created.[59] Canada took up this idea and proposed that a World Trade Organization fill this role. The European Community (EC) agreed but wanted it called the Multilateral Trade Organization (MTO), while the United States was "frankly hostile" to the plan.[60] The American position was that it was premature to focus on the institutional structure before agreeing on the substantive rules. As US Trade Representative Carla Hills put it, "You need to have the rules before you build the courthouse."[61]

The first years of the Uruguay Round negotiations were slow as the work program was established, but steady progress was made after a midterm review in 1989. The negotiations moved forward when President Bush vetoed a textile quota in 1990 and agreed to abolish the MFA gradually. In agreeing to do so, the United States met a key demand of developing countries and was able to win concessions in other areas, such as intellectual property and investment.

The effective deadline for the conclusion of the round was December 1990 so that Congress would have enough time to review and vote on any agreement before fast track expired in mid-1991. Although much of the agreement was settled by this time, agriculture remained unresolved. Negotiators had decided to categorize different types of subsidies as either permissible or impermissible, but there was still no consensus on how much subsidies and agricultural trade barriers should be reduced. In October 1990, to put pressure on Europe, Congress reauthorized the Export Enhancement Program that subsidized agricultural exports and included a "GATT trigger" that would expand the program if no agreement was reached.

A GATT ministerial meeting in Brussels in December 1990 sought to finalize details on agricultural subsidy levels and conclude the round.

The United States had backed away from the zero option, proposing instead a 75 percent reduction in domestic (price and income) support and a 90 percent reduction in export subsidies. The EC's counteroffer was a 15 percent reduction in domestic support and no commitments on export subsidies.[62] The differences were far too wide, and the meeting ended in failure, with many participants attributing it to Europe's unwillingness to compromise.[63]

Although the impasse on agriculture remained, the Uruguay Round negotiations were by no means dead.[64] The United States kept alive the hopes of reaching an agreement by extending fast track for another two years while ratcheting up pressure on Europe to reach a deal on agriculture. In a speech to American farmers, President Bush said that "sooner or later, the EC must stop hiding behind its own Iron Curtain of [agricultural] protectionism."[65] The United States also demonstrated that a failure to reach an agreement on agricultural subsidies meant that it would resort to unilateral trade sanctions. In early 1992, the Bush administration announced that it would retaliate against the EC's subsidies for oilseed producers by imposing high tariffs against $1 billion of European exports. When a GATT panel supported the US position, the administration imposed duties of 200 percent on $300 million worth of white wine and other agricultural goods from Europe.

The threat of a trade war led to a November 1992 negotiating breakthrough on domestic support levels, export subsidies, and market access in agriculture. The Blair House agreement, named for the house across the street from the White House where American and European negotiators met, called for a 21 percent reduction in export subsidies over six years, albeit from a higher subsidy base (1990–91 rather than 1986–87). This agreement was the last major trade accomplishment of the Bush administration, as the president was defeated in that month's election.

The Blair House agreement resolved a major stumbling block but did not quite mark the end of the round. Key changes in the negotiating personnel led to a pause in the negotiations: Bill Clinton replaced George Bush as president, Mickey Kantor replaced Carla Hills as US Trade Representative, and Peter Sutherland replaced Arthur Dunkel as director-general of the GATT. Despite this turnover, negotiating positions did not change significantly. The GATT negotiations were rejoined in July 1993, and the remaining details, such as the exchange of tariff concessions and the specific texts of the agreements, were finalized.

One unresolved issue was whether a new international trade organization should be created. The Bush administration never endorsed the idea, fearing that Congress would have reservations about it, but plans for such an organization were included in the draft agreement. On December 15, 1993, the last day of the negotiations, Kantor agreed to a new institution but wanted the name changed from the Multilateral Trade Organization to the World Trade Organization, the name originally proposed three years earlier. Although the new institution had no direct power over the trade policies of member countries, the WTO formalized the status of the GATT Secretariat and made the application of the commitments in the agreements definitive rather than provisional. With that decision, Director-General Peter Sutherland gaveled the negotiations to a close. In April 1994, the final Uruguay Round agreement was formally signed by 117 nations in Marrakesh, Morocco, and scheduled to take effect in January 1995.

The Uruguay Round was the most ambitious and far-reaching multilateral trade negotiation since the establishment of the GATT in 1947. The MFA was to be phased out over ten years. Agricultural subsidies were to be reduced and constrained. Export-restraint agreements were abolished, forcing countries to use safeguards, antidumping or countervailing duties to provide domestic producers with relief from imports. A dispute-settlement procedure was established. Countries agreed to cut import duties by about one-third. A General Agreement on Trade in Services (GATS) was reached, along with agreements on Trade-Related Intellectual Property (TRIPs), Trade-Related Investment Measures (TRIMs), safeguards, subsidies, dispute settlement, and technical issues in trade (such as sanitary and phyto-sanitary measures against imports).

The United States was largely responsible for initiating the round and for pushing new areas of trade onto the agenda.[66] It was able to do so because of two implicit threats. If an agreement was not reached, other countries feared that United States would (1) walk away from the multilateral trading system and undertake bilateral and regional trade initiatives that would exclude (and thus discriminate against) countries that did not participate, and (2) unilaterally enforce its own trade rights through section 301 and the threat of retaliation. While the United States wanted to constrain the policies of other countries through new WTO rules, the rest of the world also wanted to constrain the United States from what it saw as abuses of power.

Of course, the Uruguay Round agreements had to be approved by Congress before US participation was assured. The Clinton administration spent the spring and summer of 1994 drafting the Uruguay Round implementing legislation, which was not sent to Congress until a few weeks before it adjourned for the midterm elections.[67]

The congressional debate on the Uruguay Round was entirely different from the debate over NAFTA just a year earlier. Passage was virtually assured, because the agreement involved substantial commitments by the rest of the world—on agriculture, intellectual property, and dispute settlement—that would favor American exports. Major businesses—especially large firms, ranging from Boeing and General Electric to American Express and Procter and Gamble—were strongly in favor. Other key constituencies supported the agreement for its provisions on agriculture and intellectual property: Midwestern farm states welcomed the reduction in European agricultural subsidies, and California's entertainment and high-technology industries welcomed the intellectual property commitments. Even trade hawks such as Richard Gephardt announced that they would support the Uruguay Round agreement. In addition, opposition from labor and environmental groups was much weaker than with NAFTA; these groups were critical but not very active. Only in the case of textiles and apparel was there much alarm about the domestic impact of the deal. Therefore, members of Congress faced significant political pressure to approve, and only light pressure to reject, the Uruguay Round agreements.

On November 30, 1994, after a four-hour debate described as "routine and one-sided," the House approved the Uruguay Round legislation by a bipartisan vote of 288–146; two-thirds of both Democrats and Republicans supported it. Unlike what happened with NAFTA, twice as many Democrats supported the Uruguay Round as opposed it, while fewer Republicans supported the Uruguay Round than had supported NAFTA.[68] The Senate also easily approved the agreement in a bipartisan vote of 76–24, and President Clinton signed an executive order putting the Uruguay Round agreement into effect on January 1, 1995.

What was the economic impact of the Uruguay Round? As with most trade agreements, it is impossible to know precisely how much it expanded world trade, let alone its broader economic consequences. Average applied tariffs were cut by a third. In developed countries, tariffs on industrial products were low, while those on labor-intensive manufactured goods were higher, as table 13.1 shows. Meanwhile, even after the Uruguay Round reductions, tariffs in developing countries remained relatively high.[69]

The termination of the MFA, the scaling back of agricultural subsidies, and the elimination of voluntary export restraints were the areas where most of the efficiency gains were expected. The abolition of the MFA was probably the most significant reform in the package. By 1994, the United States had agreements with forty countries that specified export limits

TABLE 13.1. Post–Uruguay Round average applied tariffs for selected countries

	Industrial tariffs	Agricultural tariffs	Textile and clothing
Developed countries			
United States	3.1	2.2	14.8
European Union	2.9	3.7	8.7
Japan	1.4	10.5	7.2
Canada	2.6	1.5	14.2
Australia	9.7	3.3	21.6
Developing countries			
Argentina	10.6	4.9	12.1
India	29.0	60.1	42.4
Korea	7.6	11.6	13.0
Thailand	26.8	26.5	28.9

Source: Finger, Ingco, and Reincke 1996.

on as many as 105 categories of products covering about half of US imports of textiles and apparel. The export quotas of the MFA acted like an export tax; the implicit tax on clothing exports from China was 40 percent in 1992.[70] Because the ten-year phaseout was back-loaded, only about 20 percent of the liberalization had occurred by 2004, meaning that the import shock was large when the quotas were finally abolished on January 1, 2005. In fact, the 18 percent of China's apparel exports that were restricted by MFA quotas in 2004 (the share was so small precisely because they were restricted) jumped 450 percent in 2005 when they were no longer constrained, whereas China's unconstrained apparel exports increased 50 percent that year. The price of the previously constrained exports fell 38 percent in 2005, to the benefit of consumers.[71] Harrigan and Barrows (2009) calculate that the MFA quotas cost US consumers $7 billion per year, or roughly $63 per household (approximately 4.5 percent of the average household's apparel budget). The abolition of the MFA also reshuffled market shares across countries: the share of US clothing imports from China jumped from 21 percent to 28 percent between 2004 and 2005. The share from South Asian exporters, such as India, Pakistan, and Bangladesh, increased by a smaller amount, while apparel imports from Mexico (which had previously benefited from NAFTA) dropped 7 percent.

The agreement on agriculture resolved the long-standing US-EC conflict over subsidies, but delivered significantly less market opening than originally hoped. In the process of converting the complicated array of existing trade barriers into tariffs, countries imposed new duties that were higher than the equivalent existing combination of non-tariff restrictions—a practice known as "dirty tariffication."[72] Despite the failure to improve market access significantly, government support for agriculture in OECD countries fell considerably after 1995. The producer subsidy equivalent (PSE) across all OECD countries declined from 37 percent in 1986–88 to 30 percent in 1995–97 before the Uruguay Round agreement really took effect, but then slid to 18 percent in 2011–13. The nominal protection coefficient (NPC) indicated that OECD farmers received, on average, prices almost 50 percent higher than world prices in 1986–88, but just 10 percent more by 2011–13. This reduction was largely driven by European reforms that occurred for reasons other than the Uruguay Round agreement, including budgetary constraints and higher commodity prices. Still, international pressure to decouple transfer payments from production decisions and adopt other policy reforms facilitated the process.[73]

Many of the Uruguay Round agreements established new rules and practices whose impact on world trade was difficult to quantify. For example, the GATS agreement may have increased trade in services, but it is not clear how much liberalization, and therefore additional trade, took place because of the agreement itself. The Agreement on Safeguards effectively ended export-restraint agreements and forced countries to use standard trade remedies, but the aggregate trade effects were hard to determine.

Although the new dispute-settlement system largely formalized existing practices, it transformed the way countries dealt with trade conflicts. Under the new system, countries could file complaints about possible violations of WTO agreements. If consultations failed to resolve the matter, the WTO would appoint a three-member panel to determine whether an agreement had been violated. (The panel decision could be appealed to an Appellate Body, which would rule on matters of law and legal interpretation in the panel report.) Unlike the standard practice under the GATT, the new system prevented countries from blocking the establishment of a panel or the adoption of a panel report. It also set specific time requirements to expedite cases. If the panel found that a violation had occurred, the defendant country was obligated to bring its policy into conformity with the rules. Of course, the WTO had no authority to force any country to change its policy, but if a country failed to comply with a ruling, the complainant could seek permission from the WTO to retaliate against the noncompliant country. In practice, most countries accepted the panel ruling, and there were few retaliations. Because it was costly and time-consuming to bring a case, only strong cases were taken to the WTO: plaintiffs almost always won, and defendants almost always lost. Thus, the United States tended to win the cases it brought and lose the cases brought against it.

The system worked well enough that it effectively ended the unilateral approach previously taken by the United States. After 1995, section 301 cases were superseded by cases being brought into the WTO's dispute-settlement system, which proved to be effective in enforcing the many WTO agreements. Despite the fears that the WTO would infringe on the sovereignty of the United States, particularly in cases involving environmental standards or health and safety regulations, most cases were fairly mundane and dealt with narrow technicalities.[74] At the same time, the legalistic approach to trade disputes made it less adept at handling highly political trade disputes, such as the conflict between the United States and the Europe over subsidies to aircraft producers (Airbus and Boeing) and food regulations (hormones in beef and genetically modified crops). These cases still required a negotiated and not a legal solution.

However, the Uruguay Round agreement proved to be the last major substantive agreement reached by the WTO members. In 1995, the WTO had 128 member countries; by 2015, this had grown to more than 160. This expansion created a problem for the institution as a trade-liberalizing body. The WTO is often called a "member-driven" organization because the institution has no real independent power outside of what the member states want to achieve through it. The WTO also operated on the basis of a consensus among its members in negotiating the rules and agreeing on the reduction of trade barriers. Of course, reaching such a consensus is extremely difficult, and the larger the membership, the more difficult this proved to be. In particular, the more active participation of developing countries such as India and Brazil, which had long been reluctant to reduce trade barriers, made the next round of trade negotiations much more problematic.

POST-NAFTA TRADE POLITICS

In its first two years, the Clinton administration secured congressional passage of two landmark trade agreements, NAFTA and the Uruguay Round, although NAFTA and most of the Uruguay Round agreements had been negotiated by the previous administration. President Clinton also presided over a period (1993–2001) when the country's economic performance was remarkably strong. By the end of the 1990s, the unemployment rate had fallen to just 4 percent, reaching 3.8 percent in April 2000, a rate not seen for three decades. Despite fears that NAFTA would cost jobs, manufacturing employment remained stable, and real wages grew at a strong pace, with notable gains for low-wage workers. Productivity growth accelerated with advances in information technology. The federal budget deficit briefly turned to a surplus and, although the trade deficit began to swell again, the strong economy meant that, unlike in the 1980s, there were few complaints about foreign competition.

The economy of the 1990s would later be looked back upon with envy. Yet, "paradoxically, as economic performance improved, the political environment [for trade policy] deteriorated," Lawrence (2002, 279) observed. Although protectionist pressures were subdued, and there were no proposals to reverse existing trade agreements, "the political consensus in support of trade agreements in the United States was severely eroded," and the trade agenda stalled. In large part, the continuing controversy over NAFTA was responsible for this development. NAFTA exposed bitter divisions within the Democratic party and poisoned the political atmosphere for trade policy for decades, making it difficult (but not impossible) for any president to move forward with new initiatives. Members of Congress did not want to go through such a tumultuous and divisive debate again. They were keenly aware of the public's sensitivity to trade and wished to avoid the subject altogether.

American politics also became much more partisan in the 1990s than it had been in previous decades. In a stunning development, Republicans captured the House in the 1994 midterm elections, gaining control of the chamber for the first time in forty years.[75] While having more Republicans in Congress might have strengthened the hand of a pro-trade Democratic president, as demonstrated by their cooperation over NAFTA, the two sides began fighting with each other on many issues, making it difficult to cooperate on trade matters.

The Democratic split on trade and the new partisanship were on display in the 1997–98 battle over fast track. Two years after getting the Uruguay Round through Congress, President Clinton proposed renewing fast track, which had expired in 1994. The president argued that the country should not be left behind as developing countries were beginning to open their markets and reduce state control of their economies. "We've worked hard to tear down trade barriers abroad so that we can create good jobs at home," he said. "Now we must act to expand our exports, especially to Asia and Latin America, two of the fastest-growing regions on earth, or be left behind as these emerging economies forge new ties with other nations." But, Clinton continued, "this is about more than economics. By expanding trade, we can advance the cause of freedom and democracy around the world."[76]

Yet the political environment was not ripe for a renewal of fast track. Still smarting over the passage of NAFTA, labor unions were determined to defeat the president's bid. Once again, House Minority Leader Richard Gephardt and Minority Whip David Bonior led the Democratic opposition. And as a stand-alone measure, without being embedded in a larger trade bill and with no tangible trade agreement in hand or on the horizon, fast track was vulnerable to defeat.[77] Sensing trouble, the Clinton administration asked Congress to delay any vote until the fall of 1997. Once again, the number of House votes needed to gain passage was 218. Republicans were expected to deliver 150 votes, but getting even 70 of 206 Democratic votes was thought to be extremely difficult. Just days before the vote, only 112 Republicans and 42 Democrats had announced their support. At 1:15 a.m. on the morning of November 10, 1997, the day of the scheduled vote, President Clinton called House Speaker Newt Gingrich and asked him to postpone it. AFL-CIO President John Sweeney called the defeat of fast track "the first bit of blue sky working Americans have seen in US trade policy in many years."[78]

If Democratic discord was not problem enough for fast track, partisanship intruded the following year. Against the opposition of the Clinton administration, Speaker Gingrich brought a vote on fast track to the House floor. Republicans knew that the vote would fail and simply sought to expose Democratic divisions and hand the president a defeat just before the 1998 midterm election. Even pro-trade Democrats were dismayed by the Republican move. "Today's exercise on this legislation soils our national trade policy with the mud of partisan politics," complained Robert Matsui (D-CA).[79] Fast track was easily defeated by a vote of 243–180.

What had changed to make the political environment for trade policy so contentious? Aside from the anger still felt by NAFTA opponents, a broader phenomenon was becoming apparent: the United States was entering into a new era of partisanship and political division. This was true not just on trade policy, but on most political issues coming before Congress, making it difficult for a Republican Congress to cooperate with a Democratic president. This new era of partisanship was not an aberration, however, but a return to a historical norm. The period from the late 1940s through the 1980s was the unusual period in Congress for the degree of bipartisanship shown.[80]

Figure 13.2 illustrates the increased partisan voting in Congress by showing House votes, by party, on important trade legislation from 1890 to 2015. The vertical axis measures the share of each party voting for lower tariffs or against higher tariffs. Every trade vote, from the McKinley tariff of 1890 through the second extension of the RTAA in 1940, was almost a straight party-line vote: Republicans voted for higher tariffs and against lower tariffs, while Democrats voted for lower tariffs and against higher tariffs. This pattern began to break down in the 1950s when Republicans started supporting trade agreements. For several decades, trade votes were largely bipartisan. This bipartisan pattern was driven in large part by foreign-policy concerns, discussed in chapter 11, until the end of the Cold War in 1989. It continued until the Democrats lost their base in the South and began drawing most of their support from the North, particularly the Rust Belt. Although Democrats sponsored some of the protectionist legislation of the 1970s and 1980s, they supported the trade bills in 1984, 1988, as well as the Uruguay Round. However, NAFTA was a turning point: after NAFTA, Democratic support for trade legislation weakened considerably. Indeed, Congress's vote on NAFTA looked almost bipartisan in comparison with the wrangling over trade policy in the late 1990s and into the 2000s.

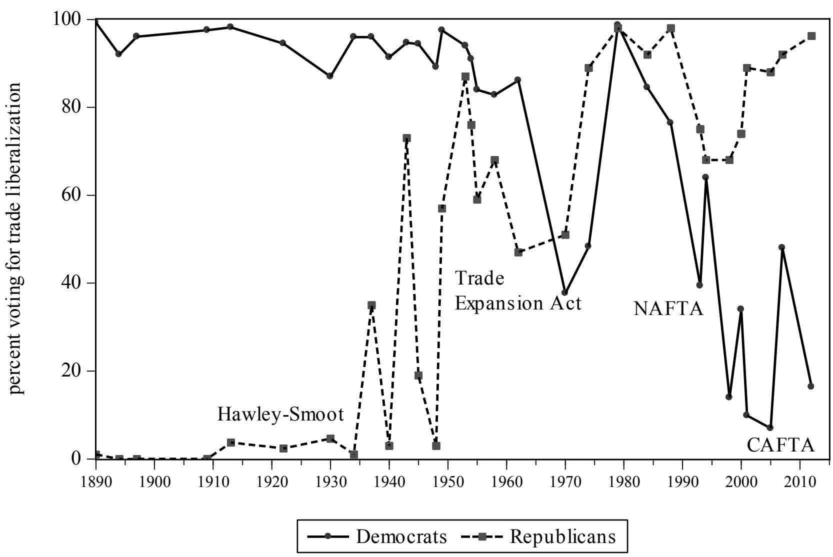

Figure 13.2. House voting on trade legislation, by party, 1890–2015. (Compiled by the author.)

One important political change was the demise of Southern Democrats and their replacement by Southern Republicans. From the Civil War until the Great Depression, Southern Democrats dominated the party, outnumbering Northern Democrats from the manufacturing belt, who tended to support protective tariffs. After Franklin Roosevelt and the New Deal solidified the party's hold in northern urban constituencies in the 1930s, the Democrats were geographically diversified, but there was little intra-party feuding on trade during the calm period of the 1950s and 1960s, when foreign competition was in abeyance. The import shocks of the 1970s pushed Northern Democrats (representing the industrial belt) into opposing freer trade, while Southern Democrats (representing the textile belt) continued to support it because the MFA was in place to protect the textile and apparel industry. The demise of Southern Democrats weakened the party's support for freer trade. As the number of Southern Democrats declined, a trend that accelerated in the early 1990s, Northern Democrats came to dominate the party and determine its position on trade issues. Northern Democrats from the Rust Belt were attuned to the interests of labor unions and the loss of jobs in manufacturing. They did not want President Clinton or his successors to negotiate further trade agreements that would arouse the opposition of labor unions and other constituents.[81]

While this geographic shift changed the complexion of the Democratic party, Southern Republicans were more ideologically in favor of free trade. The replacement of Democrats by Republicans in the South diminished the clout of the textile and apparel industry and of their unionized workers. In South Carolina, for example, Democrat Ernest "Fritz" Hollings, a firm advocate of import limits, was replaced by Republican Jim DeMint, a strong free trader, in the Senate. Rather than saving old textile jobs, the Republicans focused on attracting new, non-union, manufacturing jobs to the region. Southern apparel producers were rapidly declining in economic strength and influence as the region became more internationalist in outlook and sought to attract domestic and foreign investment in other manufacturing industries.

Democrats from the Rust Belt (depicted in figure 12.7) complained that trade agreements such as NAFTA served the interests of big business but not workers. "Our trade policy serves the needs of nominally American multinational corporations whose business visions and plans are global in scope and which maintain no national allegiances," Marcy Kaptur (D-OH) protested. "Free trade advocates want the American people to believe that those of us who oppose fast track are ignorant of the new international economy and are pursuing an 'America-last' strategy," William Lipinski

(D-IL) added. "They think we are protectionists, as if it were some kind of dirty word. Well, if trying to protect American jobs, the American standard of living, and American working families makes me a protectionist, then I will gladly wear that label."[82]

At the same time, Democrats in other regions of the country, particularly the West, represented states with export-oriented industries, such as high technology and aerospace. They clung to the party's traditional position in favor of open trade. The geographic division among Democrats became less North-South than between those states with strong ties to organized labor and those without.[83]

While opposition to trade grew stronger among the Democrats, however, the party also grew weaker in national politics. Republicans captured the House in 1994 and held it until the 2006 election, when they lost it briefly before recapturing it again in 2010. Shifts in the country's political geography also weakened the strength of old manufacturing regions in Congress. The five largest Rust Belt states—New York, Pennsylvania, Ohio, Michigan, and Illinois—lost eleven seats in the reapportionment of the House after the 1990 census and another seven seats after the 2000 census. Meanwhile, California, Texas, Florida, and Arizona picked up fifteen new House seats after the 1990 census and another seven after the 2000 census. Furthermore, farm states in the Midwest—including Iowa, Kansas, South Dakota, and Nebraska—continued to support export-oriented policies as agricultural producers and to see foreign markets as opportunities for expanding sales. Wheat, soybeans, corn, meat, and animal hides still ranked high in terms of exports. As the political weight of the country shifted away from the industrial North and Midwest and toward the South and West, opponents of trade agreements were put in a weaker political position. These shifts in regional political strength meant that members of Congress representing old manufacturing interests could try to block new trade agreements, but they would never be strong enough to roll back those agreements.

In addition, the United States had become a service economy, in which the agricultural and manufacturing sectors were no longer as important as they had been in previous decades. A majority of workers were not directly affected by the problems that labor-intensive or unionized manufacturing industries had in dealing with foreign competition. Manufacturing's share of total employment had fallen from more than 25 percent in 1970 to less than 15 percent by 2000. The share of unionized workers in private-sector employment also fell from 20 percent in 1983 to 11 percent in 2014.[84] With that shrinkage came diminished political power.

These political and economic factors, as well as the new WTO rule against export-restraint agreements, made it difficult for industries facing competition from imports to get protection the way that they did in the 1970s and 1980s. For example, the Asian financial crisis of 1997–98 led to a huge diversion of steel shipments to the United States. Steel imports soared, driving down prices and contributing in part to the layoff of roughly 170,000 steel workers as firms cut back production or went bankrupt. This unleashed a flood of antidumping and countervailing duty petitions, but legislative aid was not forthcoming. Although the House passed a bill in March 1999 by a wide margin calling for import quotas, everyone knew the effort would fail: the president had already issued a veto threat, and the Senate did not even bother to take the measure up.[85] The inability of the steel industry to receive much of a hearing during this cyclical crisis illustrated how much industry trade politics had changed. In the 1970s and 1980s, Congress would have been quick to demand action, and the executive would have negotiated export-restraint agreements with foreign countries. Now neither Congress nor the president was willing to act on the industry's behalf, and WTO rules no longer permitted export-restraint agreements, leaving the industry to take its chances with administrative trade remedies.[86]

Although it did not come close to passing any new import restrictions, Congress also did not encourage the president to seek new trade agreements. In fact, there was little immediate prospect of accomplishing anything in multilateral or regional trade discussions. The Clinton administration was interested in building on the Uruguay Round by pressing forward with new negotiations to discuss e-commerce, agriculture, and services, but global sentiment was not favorable to new trade talks. The European Union (EU) and Japan did not want further discussions about their agricultural policies, and developing countries were still absorbing their Uruguay Round commitments, leaving most WTO members unenthusiastic about starting new negotiations.

The WTO was proving valuable in resolving trade disputes, but its membership was reluctant to move forward with new trade negotiations. The multilateral system no longer consisted mainly of the United States, Western Europe, and Japan, as in past negotiating rounds. Developing countries were now fully in the mix, which made reaching a consensus on the agenda much more difficult. For example, the Clinton administration and congressional Democrats wanted to ensure that labor standards and environmental provisions were included in all new trade agreements, but developing countries were strongly opposed. They were suspicious of having enforceable provisions on worker rights in trade agreements out of fear that developed countries might use such provisions to block their exports of labor-intensive manufactured goods. At the first WTO ministerial meeting in Singapore in 1996, developing countries rebuffed an American attempt to put labor standards onto the trade agenda.

The next WTO ministerial meeting, in Seattle in 1999, was more eventful. The gathering attracted huge public protests as a wide range of groups, including labor unions, environmental groups, human rights activists, religious organizations, and others, voiced a multitude of complaints about the trading system. These groups feared that the new WTO agreements would infringe on national sovereignty and undermine domestic regulations to protect the environment and working conditions, although these fears were never realized. Among the protesters were fringe groups—dismissed as "recreational revolutionaries" by some trade officials—including anarchists, some of whom smashed storefront windows in downtown Seattle. This violence brought out the riot police, leading to confrontations involving tear gas and mass arrests. These skirmishes were called "The Battle in Seattle" and were later depicted in a movie of that name.

While the rambunctious protests outside the convention center got most of the media attention, the ministerial meeting broke down over a lack of consensus among WTO members about the parameters of a new negotiating round. A key issue was labor standards, which developing countries thought had been tabled at Singapore. Yet President Clinton raised the issue again and perhaps inadvertently scuttled the meeting by stating, "ultimately I would favor a system in which sanctions would come for violating" an agreement on labor standards. This statement "stunned delegates, and even his own negotiators" and confirmed the worst fears of developing countries.[87] The meeting ended with no decision to start new negotiations but with greater suspicion among developing countries about the content of a new trade agenda.

Other regional trade initiatives that the United States was involved in, including the Free Trade Area of the Americas (FTAA) and the Asia-Pacific Economic Cooperation (APEC) discussions, failed to advance as well.[88] Yet the Clinton administration succeeded in persuading Congress to pass the African Growth and Opportunity Act of 2000, which gave duty-free treatment to select goods from sub-Saharan Africa, but not without a fight with labor unions once again. More significantly, the administration oversaw the accession of China to the WTO.

CHINA AND THE EXPANSION OF GLOBAL TRADE

The collapse of Communism in 1989 allowed Eastern Europe and later the former Soviet Union to become integrated into the world economy, although their impact on global trade was modest. A more important consequence of the collapse was the discrediting of the socialist planning model, involving high trade barriers and state-led industrialization policies, that had been embraced by many developing countries. After seeing the success of export-oriented growth policies in Taiwan and South Korea in the 1960s and 1970s, developing countries began adopting pro-market reforms, particularly the relaxation of state economic controls, which included opening their markets to international trade. Even without any changes in US policy, economic reforms around the world in the late 1980s and early 1990s would increase the participation of developing countries in world trade and have significant ramifications for the US economy.

The biggest change occurred in China. In the 1970s, China was one of the poorest countries in the world, with a population of about a billion people, and it had virtually no presence in world markets. In 1978, China's premier, Deng Xiaoping, began to open what had been a closed economy, moving it away from rigid state control and central planning toward a market-oriented system with limited private enterprise. Agricultural collectives were phased out, and private farming was introduced; the state monopoly on foreign trade was abolished; foreign investment was gradually permitted; and trade barriers were reduced in stages.

These policy reforms led to a dramatic acceleration in China's economic growth and sparked a rapid expansion in its foreign trade. With hundreds of millions of unskilled workers migrating from the rural areas to coastal manufacturing centers, China soon became the world's largest exporter of labor-intensive goods, particularly apparel, footwear, toys, and sporting goods. China also became the assembly location for the world's consumer electronics. Within two decades, China made an enormous impact on world markets and trade flows. China's share of world exports rose from miniscule proportions in 1980 to 5 percent in 2000, reaching 12 percent in 2014.[89]

The United States had little contact with the country after China's Communist revolution in 1949, until President Nixon's famous trip to Beijing in 1972. In 1980, President Carter opened trade with China by allowing its goods to be given MFN status instead of being subject to the much higher non-MFN duties that were still in effect from the Hawley-

Smoot tariff of 1930. The Trade Act of 1974 gave the president the authority to grant Communist countries MFN status on an annual basis, provided Congress did not vote to disapprove. The renewal continued without controversy until China's brutal crackdown on protesters in Tiananmen Square in 1989. Thereafter, Congress sought to link China's MFN status to improvements in human rights, but subordinating growing commercial interests to human rights concerns proved difficult. Throughout the 1990s, President Clinton argued that political and economic engagement with China would serve American foreign-policy goals, including human rights objectives, better than withdrawing MFN status, which would essentially cut off bilateral trade.[90]

In the 1990s, the United States began discussing the terms under which China could join the GATT. Once it did so, China would be required to adhere to its rules, and the United States would be obligated to grant MFN status without annual review. For the United States to allow its admission, China would have to commit to a wide-ranging package of tariff reductions and market-access commitments. By 1995, China also had to agree to the Uruguay Round agreements. While other countries were willing to accept China as a new member of the WTO, the United States delayed and sought to wring as many concessions from China as possible.

In November 1999, during the WTO ministerial meeting in Seattle, US Trade Representative Charlene Barshefsky announced that an agreement had been reached and that the United States would support China's admission. China agreed to substantial tariff reductions, with rates dropping from an average of 25 percent to 9 percent, a phaseout of import quotas and licensing requirements, and a commitment to open up services and adhere to agreements on trade-related investment and intellectual property.[91] The United States did not get many commitments on reforming state-owned enterprises and government procurement, but was allowed to invoke a special China safeguard to protect against import surges and use a special methodology relating to nonmarket economies in dumping and subsidy cases for an extended period.

For the agreement to take effect, Congress had to approve "Permanent Normal Trade Relations" (PNTR) with China. Since this issue came up so soon after the battles over NAFTA and fast track, Democrats were not pleased with the administration's decision to bring a vote on China's trade status before Congress in an election year. "The president has thrown an apple of discord within the Democratic Party at a time when we are trying to win the House of Representatives," Rep. Nancy Pelosi (D-CA) grumbled.[92] Democrats wished to avoid a NAFTA-style debate about whether another low-wage, undemocratic country should be given permanent access to the US market. Since it had a much larger labor force and much lower wages than Mexico, China could potentially have a much bigger impact on the US economy than Mexico.

Businesses and agricultural producers strongly favored granting PNTR to China. American multinationals that had investments in China, or had contracting arrangements with Chinese firms, wanted the assurance that they could ship goods made or assembled there back to the United States at the low MFN rates. These firms also saw the potential to sell more goods to China if government barriers were swept aside and trade rules were established and enforced. In addition, dozens of agricultural groups, representing farmers, producers, and processers, urged passage of the bill because they saw China as a large and growing market for soybeans and other products. These groups also feared that if Congress rejected PNTR, they would lose sales to European or Asian competitors whose governments had already given China MFN status. In addition, many foreign-policy specialists argued that increased trade and integration of China would lead to more bilateral engagement and strengthen regional security. It was even hoped that such engagement would promote the rule of law, improve the human rights situation, and perhaps even encourage a movement toward democracy.

The opponents of PNTR emphasized the potential problems associated with increased trade with China: the threat of large job losses and a growing trade deficit, the unresolved question of human rights, and the lack of adequate labor and environmental standards. The range of opposition to PNTR was greater than in the case of NAFTA because labor and environmental groups were joined by human rights activists and even some groups on the political right. These included social conservatives, religious groups, and national security hawks who opposed anything that might strengthen a Communist country and potential adversary. Many conservatives feared that the transfer of advanced technology to China would threaten America's national security. These groups believed that the annual review of MFN gave the United States leverage over China and was the only way to keep it on good behavior. Consequently, Republican support for PNTR was weaker than for previous trade initiatives.

The PNTR debate repeated many features of the NAFTA debate. Minority Leader Richard Gephardt and Minority Whip David Bonior led the Democratic opposition in the House; the White House invited former presidents back to Washington to help make the case for trade with China; and members of Congress delayed announcing how they would vote until the last minute.[93] Even though the economy was close to a business-cycle peak, and the unemployment rate was below 4 percent, the House vote still posed a challenge because of the continued political sensitivity of trade. A week before the vote, about a hundred members of the House were formally uncommitted. In May 2000, after extensive debate, the House passed PNTR by a vote of 237–197. Republicans voted 164–57 in favor, and Democrats (along with two independents) voted 140–73 against.[94] The Senate easily passed the legislation by a vote of 87–13 later that year. President Clinton signed the bill, paving the way for China's accession to the WTO.

Since the United States had been giving China MFN status since 1980, the tariffs applied to China's goods did not change as a result of PNTR. Yet, as figure 13.3 shows, over the next eight years, imports from China soared. This import shock was significantly larger in magnitude than Japan's in the 1980s or Mexico's in the 1990s. What accounts for this surge and what was its impact on the US economy and trade politics?

The main explanation for the rapid growth in imports from China in the 1990s and 2000s was the large size and rapid growth of the Chinese economy. For nearly three decades, China's real GDP grew at more than 10 percent per year and China became the world's second largest economy in the early 2000s. This economic expansion was a massive shock

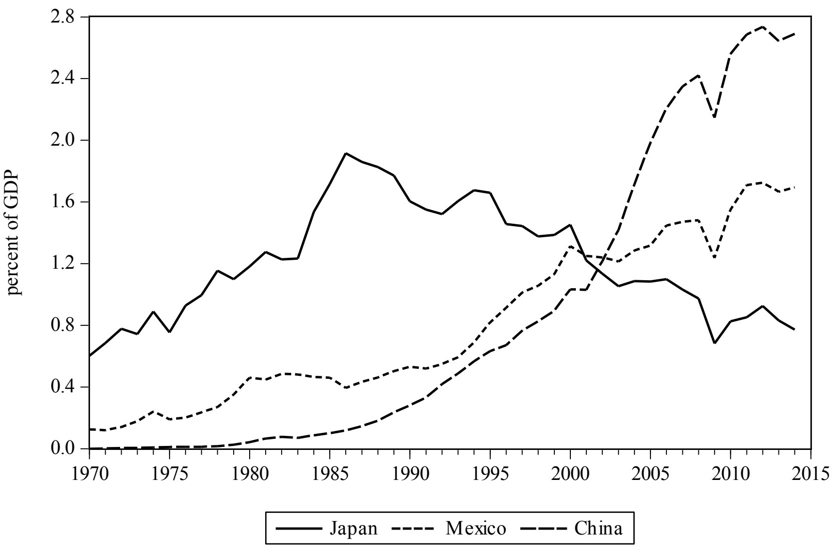

Figure 13.3. US imports as a share of GDP, by country, 1970–2015. (Compiled by the author, based on data from the US Bureau of the Census.)

to world markets, both on the supply side (in terms of the production of labor-intensive manufactured goods that China exported) and on the demand side (in terms of the raw materials and commodities that China imported). The passage of PNTR accounts for some of the rapid growth in US imports after 2001, since it resolved uncertainty about whether China's exports would continue to receive favorable tariff treatment in the United States.[95] Had China ever lost its MFN status, the average tariff on its goods would have risen from 4 percent to 37 percent, and as high as 70 percent on some items. The threat that these duties might be reimposed if relations between the two countries deteriorated discouraged some trade and investment.

The import surge partly explains the unusually large loss of manufacturing jobs between 2001 and 2003. Although the United States suffered a short recession in 2001, the 17 percent drop in manufacturing employment during this period seemed wholly disproportionate to the mild downturn.[96] Beyond the narrow window of 2001–3, the surge of imports from China is estimated to have had a considerable effect on US employment in certain import-competing industries during the 1990s and 2000s. According to Autor, Dorn, and Hanson (2013), imports from China explained 21 percent of the decline in US manufacturing employment over the period 1990 to 2007—a loss of 1.5 million jobs. Their results indicate that imports from China led to the loss of 548,000 US manufacturing jobs between 1990 and 2000 and another 982,000 jobs between 2000 and 2007. Many of these workers did not have the skills or education to find reemployment either in export sectors or other manufacturing industries, and they also lacked the geographic mobility to move to regions of the country that were creating jobs. Instead, they were often forced to take jobs in the service sector, or they dropped out of the labor force altogether and went on government disability programs.

Furthermore, because of the industry mix that was hit by the imports—low-skill, labor-intensive manufactures, such as apparel and furniture—the adverse impact was geographically concentrated in states such as Tennessee, Missouri, Arkansas, Mississippi, Alabama, Georgia, North Carolina, and Indiana.[97] The impact was particularly large in apparel, where China's economic rise coincided with the phaseout of the MFA. The combination of the two dealt a major blow to domestic apparel production: output and employment underwent a stunning decline in the 1990s and 2000s, even though the economy as a whole was expanding. The apparel industry lost about half a million jobs between 1995 and 2005 as mills and factories, often in poor, rural counties, closed. In some cases, textile and apparel plants were simply shut down, and the equipment was dismantled and shipped to China and South Asia to be used for production there.

Although the China import shock was large, the job losses did not receive much attention at the time because the impact was masked by other factors working at the national level. In the 1990s, the labor market was strong and other opportunities for displaced workers were created. Since workers in the textile and apparel industry were paid much less than the average worker in manufacturing, those that later found employment were likely to earn the same or even higher wages than they had before.[98] In the 2000s, the job losses did not get more attention because a housing boom was creating new jobs in construction.[99] In fact, the national unemployment rate was falling from 2002 through 2006 as imports from China were surging. Yet, in general, the outcome for displaced workers was much worse in this period because the labor market was not as strong, and those workers had fewer employment options. Still, these job losses should be put in perspective: imports from China may have resulted in the involuntary displacement of 97,000 manufacturing workers per year (on average, adjusted to account for voluntary separations), but that is less than one-fifth of total involuntary job loss in manufacturing and less than 5 percent of all involuntary job losses over the same period.[100]

Imports from China were also far from being the most important factor in the decline in manufacturing employment at this time. The production of manufactured goods was going through a revolution in which new technology and capital equipment, employing just a few skilled workers (such as engineers), were able to produce more and more goods with less and less labor. For example, in the 1980s it took 10 labor hours to produce a ton of steel; by 2015 that figure was down to 2 labor hours. One study attributed 87 percent of job loss in manufacturing between 2000 and 2010 to improved productivity and only 13 percent to trade. However, there were two outliers in which job losses due to trade were much higher: 40 percent in the case of furniture and 44 percent in the case of apparel and leather, both unskilled, labor-intensive industries.[101]

Imports from China and other developing countries also had a surprisingly small impact on income inequality in the United States during this period. Wage inequality—measured by the relative wages of college graduates to high-school graduates, or the relative wage of non-production (white collar) workers to production (blue-collar) workers—began increasing in the 1980s, around the time when the growth in world trade accelerated. It was commonly believed that increased trade, particularly with laborabundant developing countries, was responsible for depressing the wages of unskilled, blue-collar worker relative to skilled, white-collar workers. Yet economists generally found that growing imports from developing countries were not responsible for much of the increased inequality. One estimate puts the contribution of trade with low-wage countries at something shy of 10 percent of the overall rise in the college wage premium from 1980 to 2006.[102] Lawrence (2008, 37) found that "without the impact on wage inequality between 1981 and 2006, the wages of blue-collar workers would have been 1.4 percent higher than they were in 2006 and that almost all of this took place before 2000." Furthermore, the timing of the increase in trade and the increase in wage inequality did not match up: inequality grew rapidly in the 1980s when trade with developing countries was growing slowly, whereas inequality leveled off when imports from low-wage countries started accelerating in the 1990s and 2000s.[103] As a result, "the recent increase in US inequality has little to do with global forces that might be expected to especially affect unskilled workers—namely, immigration and expanded trade with developing countries," Lawrence (2008, 73) concluded. "Instead, the sources of increased inequality have been the rising share of the super rich—a development in which trade is likely to have played only a small role—and the increased share of profits in income, much of which could be cyclical."

China's export surge of 2001–7 had an important macroeconomic dimension as well. The overall US current account deficit reached a record 6 percent of GDP in 2007, although it did not generate as much alarm as the smaller deficits had in the 1980s. Meanwhile, China's current account surplus ballooned to 10 percent of GDP in 2007, a magnitude far outside the normal range of experience for a rapidly growing developing country.[104] US exports to China failed to grow at anything close to the pace of imports from China, and the bilateral trade deficit with China grew from $83 billion in 2000 to nearly $260 billion in 2007.

The bilateral trade imbalance did not go unnoticed. Just as in the 1980s with Japan, attention was put on the exchange rate. Whereas Japan's trade surplus had been driven by private outward capital flows, China's trade surplus was related to government intervention in the foreign exchange market. Starting in the mid-1990s, China fixed the value of its currency (the renminbi) against the dollar. China's foreign exchange reserves rapidly accumulated, growing from less than $200 million in 2000 to $1.6 trillion by 2007, and later peaking at nearly $4 trillion in 2014. This reserve accumulation indicated that China's central bank was buying dollars and selling renminbi, which kept its currency undervalued and boosted exports.[105]

As China's exports began to surge, some US producers started complaining that its currency policies were giving the country an unfair advantage in trade. This got the attention of members of Congress. Starting in 2003, Senators Charles Schumer (D-NY) and Lindsay Graham (R-SC) introduced legislation to impose a 27.5 percent tariff on goods from China until it revalued its exchange rate. (That number was a simple average of 15 and 40, which were two contemporary estimates of the renminbi's undervaluation.) More than one hundred similar bills were subsequently introduced, but all died in committee.

President George W. Bush's administration did little to challenge China's currency policy, at least in public. The Omnibus Trade and Competitiveness Act of 1988 required the secretary of the Treasury to provide semiannual reports on the exchange-rate policies of the major trading partners and consider "whether countries manipulate the rate of exchange between their currency and the United States dollar for purposes of preventing effective balance of payments adjustment or gaining unfair competitive advantage in international trade." The Treasury Department never named China as a "currency manipulator," but officials quietly pushed for a change in policy.[106] In July 2005, China began to allow the renminbi to appreciate steadily against the dollar.

The situation changed as a result of the financial crisis of 2008, when US imports plunged, slashing the current account deficit. The crisis also saw China's current account surplus drop to about 3 percent of its GDP, a more sustainable level that eased bilateral trade tensions. Still, after this correction had taken place, the House passed a bill in 2010 that would have allowed the Commerce Department to define an undervalued currency as an export subsidy in countervailing duty cases, but the Senate did not take the measure up.

Because the import surge from China was concentrated in certain goods, legislators from districts producing similar goods were swayed to vote against further trade agreements. For example, Howard Coble, a conservative Republican from the Sixth District of North Carolina, voted in favor of NAFTA in 1993. After imports of kitchen cabinets and yarn and thread from China had threatened workers in his district, he began voting against trade agreements in the 2000s. He was not alone: several representatives from districts adversely affected by Chinese imports voted against trade agreements in the 2000s, but not enough of them to block those agreements (to be discussed shortly).[107]

Unlike the import shock from Japan in the 1980s, very few protectionist policies were put in place in response to the import shock from China in the 2000s. To be sure, China became the target of antidumping and countervailing duty petitions, just as Japan had been forced to adopt export restrictions on automobiles, steel, semiconductors, and many other goods. But the political pressure to restrict imports from China was considerably less than in the case of Japan, partly because the foreign business presence in China was much greater than it had been with Japan.[108] Whereas Japan was perceived to have a closed market, both to foreign goods and foreign investment, China was relatively open to foreign brands and to foreign investment. While Japanese exports were products made in Japan by Japanese producers (Toyota, Honda, Panasonic, Sony) that competed directly with American producers, Chinese exports were sourced by American firms themselves and consisted of American name brands (footwear by Nike, apparel sold by Walmart, electronic devices by Apple). Few American consumers could name more than one or two Chinese brand names, as they could for Japanese brands.

China's leading exports to the United States include consumer electronics, sporting goods and toys, apparel and footwear, and furniture, sectors which had already experienced a secular decline in the United States and goods that were already largely imported from other countries in Asia. Furthermore, China's large share of the world's consumer electronics exports did not reflect the country's technological sophistication as much as its low labor costs, which made it the world's most cost-effective place for large-scale, labor-intensive assembly operations. In fact, only about half the value of China's exports to the United States was actually due to content that was "made in China." Many of its exports were processed goods or assembled from foreign-made components, meaning that much of their value was in the intermediate components purchased from such countries as Japan, Korea, Germany, and the United States.[109]

As a result, there were many fewer advocates in the early 2000s of protecting domestic producers from imports from China than there had been in the 1980s with respect to Japan.[110] Restricting imports was no longer considered a serious policy option. Large, globalized firms had a strong interest in keeping trade open. Many domestic firms benefited from having access to a wide array of intermediate goods on the world market. And the domestic firms that faced direct competition from China lacked much political clout in Congress, as indicated by the decline of the apparel and furniture industries. The WTO ruled out export-restraint agreements, and domestic firms could only file antidumping and countervailing duty petitions. Such selective duties on China would not stimulate more production in the United States but only divert imports from China to other Asian suppliers. If consumer electronics, sporting goods and toys, apparel and footwear, and furniture were not imported from China, those goods were likely to be imported from other Asian countries. Indeed, some of the growth in China's exports to the United States was simply a displacement of the exports of other suppliers in Asia and elsewhere.[111]

BUSH'S BILATERALISM

In securing congressional passage of NAFTA and the Uruguay Round, and ushering China into the world trading system, the Clinton administration dramatically changed the trade-policy landscape and accelerated the process of globalization. President Clinton's emphasis on the inevitability of economic change, however, was always tempered by an acknowledgement of the public's fears about trade. By contrast, his Republican successor, George W. Bush, spoke with more conviction about free trade than Clinton had, but overlooked the qualms felt by many Americans, despite presiding over a weaker economy. The Bush administration pushed eight bilateral trade agreements through Congress, but did so over increasing Democratic opposition.

During the 2000 election campaign, Bush made strong statements in favor of the economic, political, and moral benefits of free trade.[112] He pledged to secure trade-negotiating authority, complete the proposed Free Trade Area of the Americas (FTAA), and initiate new multilateral and bilateral trade negotiations. And yet, like most presidential candidates, electoral politics was paramount. The steel industry was still recovering from the 1997–98 import surge, and Ohio, Pennsylvania, and West Virginia were key states in the election. Campaigning at a West Virginia steel mill, Bush's vice presidential running mate, Richard Cheney, promised aid to the steel industry. "If our trading partners violate our trade laws, we will respond swiftly and firmly," Cheney told workers. "There should be no more looking the other way so that politics can triumph over principles."[113] This pledge was nothing out of the ordinary, since every administration since Lyndon Johnson had given trade protection to the steel industry, with the exception of the Clinton administration.

After the election, the promise on steel came due. The United Steel Workers and Congressional Steel Caucus said their support for new trade-negotiating authority was contingent on the administration taking action against steel imports. In June 2001, to preempt the filing of antidumping petitions, the Bush administration took the unusual step of initiating a section 201 escape-clause case on behalf of the steel industry, the first time that had ever been done. Of course, the ITC still had to rule that imports were "a substantial cause of serious injury" to steel producers. Although steel imports jumped during the Asian financial crisis of 1997–98, they fell back considerably in 1999–2000, raising the question of whether escape-clause tariffs could be imposed in 2002 for an import surge that had occurred three or four years earlier. The WTO safeguard agreement required that there be an absolute increase in imports for higher tariffs to be imposed, which was not true after 1999. Yet the ITC determined that the steel industry had been injured by increased imports in many but not all categories of goods.

In March 2002, after some debate within the administration, the president accepted the ITC recommendation and imposed tariffs of up to 30 percent on selected categories of imported steel.[114] In this particular case, the protection was designed to be porous. About 37 percent of the steel imports covered by the decision were exempt from the safeguard duties, including imports from countries with free-trade agreements with the United States and those from small developing countries. In addition, the administration imposed the safeguard duties for a period of three years and one day. Under WTO rules, any safeguards scheduled to be in place for more than three years require a midterm review, which meant that the administration could revisit the issue and modify or remove the duties after just a year and a half.[115]

Meanwhile, the European Union and several other countries immediately challenged the steel action through the WTO's dispute-settlement system. In 2003, a WTO panel found that the ITC decision was inconsistent with the safeguard agreement, a decision reaffirmed by the Appellate Body.[116] The administration then faced the choice of rescinding the steel tariffs, keeping the tariffs in place and accepting retaliation against US exports by the complainants, or offering compensation in the form of tariff reductions on other goods. This decision was perfectly timed with the mandatory midterm review. At this point, the Bush administration announced that the safeguard tariffs had achieved their purpose and therefore would be lifted. This decision was not difficult, because the steel measures had received unfavorable press in the United States and around the world, had been in effect through the 2002 midterm elections and had thus served their political purpose, and had coincided with a recovery in domestic steel prices that boosted industry profitability.

The Bush administration's main focus was on getting negotiating authority from Congress and concluding new trade agreements. Prior to the election, Robert Zoellick, who became Bush's first trade representative, outlined a policy known as "competitive liberalization."[117] In the past, the United States had mainly focused on multilateral trade liberalization through the GATT, while occasionally signing bilateral and regional trade agreements (such as NAFTA) when the opportunity arose. The Bush administration planned to pursue bilateral and regional negotiations more aggressively as a way of putting pressure on other countries who, out of their reluctance to reduce trade barriers, were holding up multilateral negotiations. Once in office, Zoellick energetically took up this agenda by asking Congress to pass "trade-promotion authority" (TPA), the new term for fast track. "In the absence of this authority, other countries have been moving forward with trade agreements while America has stalled," Zoellick stated. "We cannot afford to stand still—or be mired in partisan division—while other nations seize the mantle of leadership of trade from the United States."[118] Even though Republicans controlled the House, Congress was reluctant to embrace such an ambitious trade agenda. In the spring and summer of 2001, Speaker Dennis Hastert (R-IL) was forced to postpone three scheduled votes on TPA due to lack of support. Public sensitivity about trade was still high: less than two years had passed since the "Battle in Seattle" and the PNTR controversy, and the economy was now suffering from a mild recession.

Zoellick hoped to use the WTO ministerial meeting, scheduled for November in Doha, Qatar, to launch a new round of multilateral trade negotiations and persuade Congress to pass TPA. Of course, the previous WTO ministerial meeting in Seattle in 1999 had been a disaster, and few expected the Doha ministerial, which promised to be equally fractious, to succeed. But the terrorist attacks of September 11, 2001, temporarily changed the international climate. In a show of support, other countries rallied around the United States, and the WTO membership agreed to launch a new round.[119] Even so, many developing countries were reluctant to do so. The obligations they had undertaken in the Uruguay Round, particularly in terms of intellectual property, were increasingly viewed as excessive, and the market access they were promised in agriculture and clothing either never materialized or was erased by China's domination of the market. Developing countries insisted that the Uruguay Round outcome be rebalanced if they were to start a new round. Hence, the negotiations were named the Doha Development Round with the pledge that they would focus on the economic benefits for developing countries.

The prospect of a new multilateral trade round helped the Bush administration get Congress to support TPA.[120] Previous presidents in divided governments needed a bipartisan coalition to advance their trade agendas: Ronald Reagan and George H. W. Bush worked with Democratic Congresses, while Bill Clinton needed Republican votes because of insufficient Democratic support. But George W. Bush had a Republican majority in Congress and did not need Democratic votes as long as the party stuck together. As a result, trade voting became sharply partisan. Convinced that Democrats would not cooperate with them, Republicans made little effort to win bipartisan support for new trade initiatives. Instead, the administration and Republican leadership focused on using its majority to pass trade bills without labor and environment provisions, which they viewed as burdensome regulations that might limit trade, even though such provisions might have won some Democratic support.

In December 2001, the House passed the Bipartisan Trade Promotion Authority Act of 2001 by the very partisan vote of 215–214, with Republicans voting 194–24 in favor and Democrats voting 188–20 against. The administration and the House leadership put enormous pressure on Republicans not to stray from the party line and undermine the president in a time of war.[121] Congress was able to pass TPA in 2001, after having failed to do so in 1998, because there were more Republican members of the House (adding thirteen more votes in favor) and more Republicans switched from no to yes than Democrats switched from yes to no (adding sixteen more votes in favor).[122] However, the partisan nature of the vote indicated that Republicans had a small margin of error, since even some of their members had reservations about trade.[123] Rep. Sander Levin (D-MI) warned, "This is not the type of authority which facilitates a broadly bipartisan trade policy. Another narrow vote will not be a victory for US trade policy, but instead will mean trouble for each new trade agreement because all the same issues and debates will be repeated."[124]

In any event, the Doha Round quickly became deadlocked as the United States could not convince the EU to compromise on agricultural subsidies nor the developing countries to embrace more trade reforms. Indeed, the compromise reached at Doha to label the negotiations a "development" round may have sowed the seeds of discord.[125] Not long after the start of the round, it was evident that having so many countries with such diverse interests at the negotiating table was making it extremely difficult to reach agreement. Yet enough progress had been made on the agricultural and nonagricultural market-access negotiations that ministers in

2008 hoped to resolve the remaining issues and bring the negotiations to a close. However, a dispute between the United States and India over the extent to which developing countries could raise tariffs on agricultural goods in the event of an import surge created a deadlock. Both sides refused to compromise, and the meeting ended in failure. Instead of simply being a problem that negotiators could revisit later, the 2008 impasse seemed to mark the collapse of the Doha Round in its entirety. The round limped on for a few more years without any serious effort to make a breakthrough. At the December 2015 WTO ministerial meeting in Nairobi, Kenya, the members failed to reaffirm the Doha agenda and effectively put the round to rest. This was the first time that GATT participants had failed to conclude a trade-negotiating round.

Of course, long before the problems in the Doha Round were fully evident, Zoellick had already indicated that the administration would pursue a strategy of "competitive liberalization," wherein bilateral and regional trade agreements would be used to put pressure on reluctant reformers. Therefore, the Bush administration moved quickly to reach trade agreements with willing partners. Up to this point, the United States had signed just four FTAs: with Israel in 1985, Canada in 1988, followed by NAFTA in 1993, and then Jordan in 2001 (signed by Bush but initiated by the Clinton administration). Zoellick quickly expanded the number of bilateral trade negotiations. In the six-year period 2002–7, the United States concluded agreements with Singapore, Chile, Australia, Morocco, Bahrain, Oman, Peru, Korea, Colombia, Panama, and five Central American countries (the Central American Free Trade Agreement and the Dominican Republic, or CAFTA-DR). Other negotiations—with five nations in southern Africa as well as with Malaysia, Thailand, and the United Arab Emirates—were unsuccessful. The plans for the Free Trade Area in the Americas and the Middle Eastern free-trade agreement also failed to make headway.

From the US perspective, free-trade agreements were pursued mostly for foreign-policy reasons, because the commercial benefits promised to be tiny. Why did other countries want to sign a free-trade agreement with the United States? Many developing countries wanted to lock in domestic economic reforms, including lower trade barriers, and hoped that guaranteed access to the US market would attract foreign investment. For example, nearly all of Peru's exports to the United States were given duty-free status under the GSP, but the eligible quantities were restricted, which in turn limited investment in those sectors. Peru wanted to remove the remaining obstacles facing its exports to the United States and receive the same market access as Mexico and other countries had.

The initial free-trade agreements (FTAs) were relatively uncontroversial and easily passed in the Republican-controlled Congress, as shown on table 13.2. In 2003, Congress approved the Chile and Singapore agreements by comfortable margins, the first FTAs with countries in South America and Asia. Negotiations with Chile had been intermittent since the early 1990s, while the Singapore agreement dealt mainly with services, since the country did little manufacturing. In 2004, Congress also passed agreements with Australia and Morocco, two allies in the war in Iraq and Afghanistan. None of these agreements aroused any significant opposition on economic grounds, because the bilateral trade flows were small. Neither country produced labor-intensive manufactured goods that were so politically sensitive, and in cases where they exported goods that threatened a domestic industry, such as sugar from Australia, the agreement had long phaseouts of trade barriers or no liberalization at all.

The Central America Free Trade Agreement, which included Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua, along with the Dominican Republic, was much more controversial. The CAFTA-DR debate in 2005 was a repeat of the NAFTA debate—a decade later but on a much smaller scale. Although these economies were tiny in comparison to that of the United States, and the trade flows very small, opponents portrayed CAFTA-DR as a major expansion of NAFTA and therefore a threat to the United States. Once again, opponents argued, the United States was opening up its market to imports from low-wage developing countries. Once again, opponents contended, workers would be hurt, jobs would be lost, and wages would be reduced, with all the benefits going to multinational corporations. As expected, labor unions adamantly opposed the agreement, but despite the difficulties they suffered, textile mill owners were split over whether to oppose it; by this point, many firms had embraced globalization.[126]

As in the NAFTA debate, the political rhetoric exaggerated the potential economic consequences of the agreement, because the CAFTA economies were just 2 percent of the size of the US economy.[127] Although the stakes for the United States were small, the political effort required to push the agreement through Congress was considerable. The day of the House vote (July 27, 2005) was tense because the outcome was uncertain. "This is not a major trade vote," Ways and Means Committee Chair Bill Thomas (R-CA) argued. "It is a major political vote, and it was made a political vote by Democrats."[128] The House vote was expected to be so close that the president made a rare appearance on Capitol Hill to rally Republican members, urging them to set aside parochial concerns and support the

TABLE 13.2. US regional and bilateral trade agreements

Country or region	House vote	Senate vote
Israel	422–0 (D: 241–0, R: 181–0) 5/7/1985	Voice vote 5/23/1985
Canada	366–40 (D: 215–30, R: 151–10) 8/9/1988	83–9 (D: 43–7, R: 40–2) 9/19/1988
North American Free Trade Agreement (NAFTA)	234–200 (D: 102–157, R: 132–43) 11/17/1993	61–38 (D: 27–28, R: 34–10) 11/20/1993
Jordan	Voice vote 7/31/2001	Voice vote 9/24/2001
Chile	270–156 (D: 75–129, R: 195–27) 7/24/2003	65–32 (D: 22–25, R: 43–7) 7/31/2003
Singapore	272–155 (D: 75–128, R: 197–27) 7/24/2003	66–32 (D: 22–25, R: 44–7) 7/31/2003
Australia	314–109 (D: 116–85, R: 198–24) 7/24/2004	80–16 (D: 32–14, R: 48–2) 7/15/2004
Morocco	323–99 (D: 120–81, R: 203–18) 7/22/2004	85–13 (D: 39–8, R: 46–5) 7/21/2004
Central American Free Trade Agreement & Dominican Republic (CAFTA-DR)	217–215 (D: 15–188, R: 202–27) 7/28/2005	54–45 (D: 11–33, R: 43–12) 6/30/2005
Bahrain	327–95 (D: 115–82, R: 212–13) 12/7/2005	Voice vote 12/13/2005
Oman	221–205 (D: 22–177, R: 199–28) 6/20/2006	62–32 (D: 13–27, R: 49–5) 9/19/2006
Peru	285–132 (D: 109–116, R: 176–16) 11/8/2007	77–18 (D: 30–17, R: 47–1) 12/4/2007
Panama	300–129 (D: 66–123, R: 234–6) 10/12/2011	77–22 (D: 30–21, R: 47–1) 10/12/2011
Colombia	262–167 (D: 31–158, R: 231–9) 10/12/2011	66–33 (D: 21–30, R: 45–3) 10/12/2011
Republic of Korea	278–151 (D: 59–130, R: 219–21) 10/12/2011	83–15 (D: 37–14, R: 46–1) 10/12/2011

Source: *Congressional Quarterly Almanac*, various years.

administration. Mark Foley (R-FL) called it "a gut-wrenching night" as the White House and House leadership, having written off any support from Democrats, pressured Republican members for their votes. Yet Republican opposition from textile states like North and South Carolina, sugar states like Louisiana and Idaho, and old manufacturing states like Ohio and Pennsylvania made it difficult to win full party backing.

The vote took place at 11 p.m. and was scheduled to last fifteen minutes, but thirty minutes later the vote was frozen at 214–211 in favor, with 8 Republicans yet to vote. The vote was held up for about an hour while the Republican leadership figured out which members could vote against CAFTA while still ensuring the bill's passage.[129] In the end, CAFTA was approved by the narrow vote of 217–215; Republicans voted 202–27 in favor, while Democrats voted 187–15 against.[130] The Senate followed in September by a vote of 54–45.[131]

While using the Republican majority to get trade legislation passed by one or two votes was in some ways a clever political strategy, it was not the way to build a strong bipartisan consensus on trade policy, if it was still possible to have one. Trade was clearly becoming an uncomfortable issue even for Republican members of Congress, none of whom wanted to vote regularly on such controversial matters. The decision not to seek bipartisan support, either because the Democratic opposition was implacable or because Democrats would insist on labor and environment provisions that would make the agreements unpalatable to Republicans, made it difficult to squeeze the votes through Congress.

In 2006, Congress approved a free-trade agreement with Bahrain, but a similar agreement with Oman encountered unexpectedly stiff resistance and almost went down to defeat. Once again, the House vote was held open beyond the time limit as the Republican leadership scrambled to round up support. The bill passed by 221–205, but the Oman vote was a bad omen for future trade agreements, since the country posed no threat to any domestic producers. Agreements with small countries meant the economic benefits to the United States were tiny, but the political costs of defending one's vote against hostile critics were large, and even Republican legislators came to view these votes as a nuisance.

The Bush administration's political strategy on trade policy could succeed only as long as Republicans had a working majority in Congress. That majority was lost when Democrats captured the House and the Senate in the 2006 midterm elections. The election dashed administration hopes that TPA would be renewed when it expired in 2007. And if the administration put more trade agreements before Congress, it would have to compromise to win the support of pro-trade Democrats. Shortly after the election, in early 2007, the Bush administration bowed to political reality and reached an understanding with Democrats—the so-called May Tenth Agreement—that labor and environmental provisions would be included in pending and future trade agreements. This paved the way for Congress to consider the recently concluded agreements with Colombia, Panama, Peru, and Korea. The labor and environmental provisions of the Peru FTA were revised to ensure that it would receive some Democratic approval. Consequently, the House passed the Peru agreement in November 2007 in a comfortable bipartisan vote of 285–132. Republicans voted 176–16 in favor, and Democrats voted 116–109 against it, but the Democratic split was a vast change over its near unanimous vote against CAFTA-DR.

By this time, however, the working relationship between the parties had become so contentious on other issues that compromises on trade were becoming nearly impossible to reach. TPA expired in June 2007, and the Democratic Congress gave no signal that it would be renewed. This was followed by a complete breakdown in cooperation on trade in April 2008. With his term in office nearly over, President Bush was anxious for Congress to pass the trade agreement with Colombia. House Speaker Nancy Pelosi (D-CA) recommended that the president delay submitting the implementing legislation for the FTA with Colombia, which was particularly controversial because of concerns over human rights violations and the suppression of organized labor. The president went ahead and submitted it anyway. Outraged that the president would send the agreement to Congress in an election year without first securing the support of Congressional leaders, Pelosi and House Democrats retaliated by voting to remove it from the fast-track timetable, thereby allowing Congress to postpone consideration of the agreement indefinitely.[132] Bush expressed his frustration at the "unprecedented and unfortunate action" taken by the House, which he accused of taking "a shortsighted and partisan path" at "the expense of our economy and our national security."[133]

The president's action and the House's reaction represented a serious breakdown in executive-legislative cooperation on trade policy. The commitment that Congress would give timely consideration to any trade agreement reached by the president, that is, consider it within ninety days of submission in an up or down vote, was gone. Now the House had demonstrated that it could change the rules under which it considered trade agreements anytime it wanted, and therefore fast track was not really a commitment. The impasse left the Colombia, Korea, and Panama FTAs in limbo for five years.

The Bush administration spent enormous energy negotiating bilateral trade agreements and large amounts of political capital in forcing Congress to vote repeatedly on trade agreements that were, for the most part, of modest economic importance. The countries with whom the United States enacted trade agreements between 2001 and 2008 accounted for less than 5 percent of US trade. In 2012, according to an International Trade Commission study (2016, 21), existing bilateral and regional trade agreements—from Israel in 1984 to Korea, Colombia, and Panama in 2011—increased total US exports by 3.6 percent and US imports by 2.3 percent, real GDP by 0.2 percent, and real wages by 0.3 percent. Despite the political attacks made on them, the economic effects were positive but small.

Yet, in pushing the later (and smaller) agreements through Congress, the Bush administration increased the fragility of what remained of the postwar bipartisan consensus on trade policy. Although Democrats had not been cooperative, the vote on Peru showed that agreements could be passed with bipartisan support if they included provisions regarding labor and the environment. The consequences of many small FTAs were small economic gains at a large political cost, which meant that congressional Democrats were even less likely to support trade initiatives when they swept into power in the 2008 election.

OBAMA'S HESITANCE

The election of Barack Obama as president in 2008 gave the Democrats unified control of government for the first time in more than a decade. In line with House Democrats, the Obama administration recognized that trade was a divisive issue within the party and among constituents and therefore should be raised as little as possible. While the administration did not embrace new measures to restrict imports (with one exception), neither did it push for many new trade agreements until its second term.

Obama entered office without great enthusiasm for trade agreements. In contrast to southern Democrats such as Bill Clinton, who had a long tradition of supporting freer trade, Obama was a northern Democrat with a constituency that was deeply suspicious of—if not outright hostile to—trade agreements such as NAFTA. In his memoir *The Audacity of Hope*, published when he was a senator from Illinois, Obama recounted his struggle about how to vote on CAFTA in 2005. Obama (2006, 172) conceded that the "agreement posed little threat to American workers—the combined economies of Central American countries involved were roughly the same as that of New Haven, Connecticut," and he concluded that "overall, CAFTA was probably a net plus for the US economy." Yet labor leaders viewed it as a large threat and reminded him of their view that NAFTA had cost thousands of workers their jobs. When President Bush asked for his support, Obama (2006, 176) replied "that resistance to CAFTA had less to do with the specifics of the agreement and more to do with the growing insecurities of the American worker. Unless we found strategies to allay those fears, and sent a strong signal to American workers that the federal government was on their side, protectionist sentiment would only grow." Obama voted against CAFTA, admitting that "my vote gave me no satisfaction, but I felt it was the only way to register a protest against what I considered to be the White House's inattention to the losers from free trade."

In the 2008 election campaign, Obama blamed NAFTA for the loss of a million jobs and argued that it should be renegotiated, adding, "I don't think NAFTA has been good for America, and I never have." He later backed off these statements and said that the campaign rhetoric was "overheated and amplified," but he insisted that "we can't keep passing unfair trade deals like NAFTA that put special interests over workers' interests."[134] While one of his economic advisers reassured alarmed Canadians that this was just campaign talk, the incident revealed Obama's ambivalence about trade.

As president, Obama had many reasons not to have an ambitious trade agenda. Aside from his own qualms about the matter, he had no desire to focus on an issue that would divide his party. More importantly, Obama entered office facing the worst economic crisis since the Great Depression. After a collapse in housing prices, many overleveraged banks and households were pushed into insolvency. In this fragile environment, the investment bank Lehman Brothers declared bankruptcy in September 2008, and financial markets temporarily ceased to function. By early 2009, the United States was in a severe recession. Industrial production fell 17 percent between December 2007 and June 2009, and the unemployment rate reached 10 percent in October 2009. As a result, Obama spent his first year in office persuading Congress to enact a fiscal stimulus and new financial regulations.

Fortunately, the president could afford to neglect trade policy because the economic crisis did not translate into a trade-policy crisis. As it initially unfolded, the financial collapse and economic slump reminded many commentators of the early 1930s, generating fears that protectionism and beggar-thy-neighbor policies would reappear. World trade received a huge jolt: the volume of world trade fell 12 percent in 2009, according to the WTO, the largest drop recorded in the postwar period.

To the surprise of many observers, however, the financial crisis and global recession did not lead to an outbreak of protectionism around the world. Only a tiny fraction of the decline in world trade could be traced to higher trade barriers.[135] In the United States, the main reason the Great Recession of 2008–9 did not lead to protectionist pressures is that imports fell sharply. Real imports of goods were an astounding 22 percent lower in the second quarter of 2009 than a year earlier. Since no major industry faced a surge of imports, domestic producers could not blame foreign competition for their problems. There was no jump in the filing of antidumping petitions, the current account deficit narrowed sharply, and protectionist pressures in Congress were largely absent.

There are several other reasons why the severe recession did not lead to the protectionism of the 1930s. First, countries had many more policy instruments for addressing the economic crisis than they did during the Depression. As discussed in chapter 8, countries resorted to draconian import restrictions in the 1930s because they lacked other macroeconomic policy tools—principally monetary policy, which was constrained by the gold standard—to stabilize the financial system and prevent deflation. Now, in 2008 and 2009, central banks acted swiftly to provide liquidity to financial markets and shore up the banking system, thereby preventing a prolonged downturn.

Second, in the 1930s countries could impose higher trade barriers without violating any international trade agreements, whereas now WTO agreements prevented the arbitrary imposition of trade restrictions. Of course, countries were free to violate those agreements, but if they did so they would have no illusion that they could escape retaliation by other countries. In fact, there was no jump in WTO disputes during or after the crisis.[136]

Third, in comparison to the 1930s, foreign investment had transformed the world economy and reduced the economic benefits of import restrictions for domestic firms. The largest firms in the United States, Europe, and Asia were multinational in their production operations and supply chains so that they no longer had a vested interest in pushing for higher trade barriers. For example, auto producers did not ask for trade protection, as they did in the early 1980s, because it would not solve any of their problems; they were diversified into other markets with equity stakes in foreign producers, and foreign firms already operated production facilities in the United States, making border protection irrelevant.

The Obama administration did not face much pressure to impose new trade barriers, but in September 2009 it used a special safeguard provision to levy new duties on car and truck tires imported from China.[137] That this minor case involving Chinese tires was the only one in which the White House intervened to limit imports indicated just how insignificant the demands for protection had become. (The case was the result of a petition filed by a labor union, not a domestic firm.) As past experience suggested, the safeguard action failed to provide much help to domestic tire producers. First, the United States imported cheaper, lower-quality tires that were very different from the higher-quality, more expensive ones produced domestically. Second, the safeguard duty was levied only on products from China, so that imports were diverted to other foreign suppliers not subject to the duties, particularly Thailand and Indonesia. This episode illustrated once again the porous nature of administered protection, as discussed in chapters 11 and 12.

When Republicans gained control of the House in the 2010 midterm election, effectively blocking any further domestic initiatives by the president, the Obama administration began to turn to trade as one issue on which they could work together. The Republicans pushed the president to resurrect the trade agreements with Colombia, Korea, and Panama that had languished since 2008. The administration reluctantly supported the Colombia agreement (owing to controversy over human rights violations and questions about the suppression of labor unions) and asked Korea for more concessions (particularly on auto parts and beef), but eventually went forward in seeking the congressional approval. With mainly Republican support, the House and Senate passed the agreements with Panama, Colombia, and Korea in October 2011. Democratic support was marginally higher than it had been for CAFTA only because funding for trade adjustment assistance was part of the package.

In its second term, the Obama administration began to overcome its reluctance to champion new trade agreements. While small bilateral agreements like those undertaken by the Bush administration were out, and the Doha Round of multilateral negotiations had stalled (and was declared dead in 2015), larger regional agreements were back in play. Ever since 1989, under the aegis of the Asia-Pacific Economic Cooperation (APEC) forum, the United States and countries in the Asia-Pacific region had been discussing ways of further integrating the region's economies. Previous discussions to bring freer trade to the region had made little progress. In 1994, for example, leaders attending an APEC summit in Bogor, Indonesia, declared that they would achieve free trade and investment in the region by 2020. The Asian financial crisis in 1997–98 set back those efforts for a decade. When some countries later began to move forward with the discussions, the Bush administration announced in late 2008 that the United States would participate, a commitment reaffirmed by the Obama administration in late 2009.

In November 2011, the United States helped launch the Trans-Pacific Partnership (TPP) negotiations. (What used to be called "trade agreements" in the 1930s became "free-trade agreements" in the 1980s and then were labeled "partnerships" in the 2010s due to the negative connotation that "free trade" now had in many quarters.) Although it continued to view trade agreements as a political liability, the Obama administration could not avoid participating in a major initiative to open trade in the Asia-Pacific region. The administration's foreign policy "pivot" to Asia was another reason to promote trade cooperation in the region. The TPP would ultimately bring together twelve countries as disparate as Chile, New Zealand, Malaysia, Peru, Vietnam, and Japan in a single trade agreement, with the notable absence of China. The TPP negotiations demonstrated just how far trade discussions had moved away from tariff rates to non-tariff barriers and regulatory issues. The negotiating agenda included competition policy, capacity-building, cross-border services, e-commerce, environment, financial services, government procurement, intellectual property, investment, labor, legal issues, market access for goods, rules of origin, sanitary and phytosanitary standards, technical barriers to trade, telecommunications, temporary entry, textiles and apparel, and trade remedies. The goal of the agreement was to improve regulatory coherence and trade facilitation as a way of increasing market access and competition.

In his 2014 State of the Union address, Obama asked Congress to give his administration trade-promotion authority to conclude such an agreement. When Democratic leaders in Congress demurred, Obama repeated his request in 2015. "Look, I'm the first one to admit that past trade deals haven't always lived up to the hype," he said, "but 95 percent of the world's customers live outside our borders, and we can't close ourselves off from those opportunities."[138] Once again, Democrats balked, but the Republican majorities managed, with some difficulty, to secure trade-promotion authority for the administration in June 2015. Later that year, the TPP negotiations were concluded.

In 2013, the Obama administration also agreed to start trade negotiations with the European Union on the Transatlantic Trade and Investment Partnership (TTIP). Like the TPP, the idea of a US-EU trade agreement had been floating around for decades, but TTIP emerged out of the failed Doha Round and the fears of protectionism during the 2008 financial crisis. However, the negotiations proceeded much more slowly than those for the

TPP did, owing in part to European opposition to changing agricultural policy and fears about regulatory sovereignty.

Thus, although the Obama administration was initially reluctant to get involved in matters of trade policy, it played a major role in moving forward with two substantive trade negotiations with countries across the Pacific and the Atlantic. Much as NAFTA had done two decades earlier, however, the conclusion of the TPP near a presidential election made it an issue in the 2016 campaign. Republican Donald Trump and Democrat Bernie Sanders called past and prospective trade agreements "disastrous" for destroying jobs and hurting the middle class. The Democratic nominee, Hillary Clinton, who as Obama's secretary of state had endorsed the TPP, was forced to oppose it during the campaign.

The unexpected election of Donald Trump marked a sharp change in presidential tone on trade policy, and potentially a significant change in the substance of policy as well. Ever since World War II, American presidents had spoken favorably about international trade and supported multilateral and bilateral agreements to reduce trade barriers, often pulling a reluctant Congress along. Now a president was elected who had been openly and harshly critical of such agreements. During the campaign, Trump had slammed NAFTA and PNTR with China as bad deals that hurt American workers, even threatening to impose a 45 percent tariff on goods from China and a 35 percent tariff on goods from Mexico.

In his inaugural address, Trump did not soften these criticisms. "For many decades, we've enriched foreign industry at the expense of American industry," he stated. "One by one, the factories shuttered and left our shores, with not even a thought about the millions upon millions of American workers left behind." Trump promised an "America First" trade policy that would bring back jobs that had been lost to other countries. "We must protect our borders from the ravages of other countries making our products, stealing our companies, and destroying our jobs. Protection will lead to great prosperity and strength."[139] No president since Herbert Hoover had spoken so forcefully about the need for protection against foreign competition.

Upon taking office, one of Trump's first acts was to withdraw the United States from the TPP, meaning that it would not be submitted to Congress for approval. This was followed by steps to begin the renegotiation of NAFTA, along with threats aimed at companies moving jobs overseas. Although China was not immediately named as a currency manipulator, his administration was also expected to take tough actions against imports from China, a country that he had railed against on the campaign trail. Trump and his administration also viewed trade deficits as very bad for the country, taking them as an indication that the United States was "losing" from trade. Yet such deficits were not the result of previous trade deals, but foreign capital inflows, and it was not clear what the administration would do about it.

Because of his strong nationalist rhetoric, Trump was often branded a "protectionist" who could start a trade war, yet he sometimes maintained that he just wanted "fair trade" and a "better deal" from trading partners. For example, while he shelved the TPP, he also pledged to pursue bilateral trade agreements with the countries involved, although it was unclear how separate bilateral agreements would be an improvement over a single regional agreement. In fact, at least initially, the administration did not specify what provisions in existing trade agreements were so objectionable and should be changed, or how the agreements that it promised to reach would be different. After meeting with administration officials in February 2017, Senator Ron Wyden (D-OR) stated that officials offered "few details about the administration's objectives on trade and no strategy for how it plans to achieve them,"[140]

Whether the Trump administration marks a turning point in US trade policy, or just one with strong posturing on trade issues, remains to be seen. This book has emphasized the deep structural factors that have in the past prevented any big changes in the direction of trade policy from occurring. In chapter 7, we saw that Woodrow Wilson succeeded for a short time in reducing tariffs significantly, but this proved to be a brief interlude during the restriction period in which tariff levels generally remained high. In an unusual break from previous patterns, the American president was now more critical of the country's existing trade arrangements than many members of Congress. Some members began to speak up in defense of NAFTA, the WTO, and other agreements, particularly members from states with agricultural exports whose constituents would be at risk if other countries retaliated against new US import restrictions. Even if no major protectionist measures were introduced, the Trump administration portended a loss of US international economic leadership.

To some extent, Trump's election reflected deep frustration with government and the performance of the economy. The stagnation in real wages since the late 1990s and the steady rise in income inequality since 1979 led to a renewed debate over whether the average American was helped or hurt by increased globalization and technological change. While educated white-collar workers seemed to have done well, blue-collar and less-well-educated workers felt left behind. The slow economic recovery from the 2008 financial crisis and the increase in economic insecurity allowed the antitrade message to resonate with many voters. At the same time, a Gallup poll in early 2017 indicated that a record 72 percent viewed trade as an opportunity and only 23 percent viewed it as a threat.[141] This positive view of trade, however, did not necessarily translate into support for trade agreements themselves. As they were on so many other issues, Americans remained divided over trade policy.