Trade Liberalization:
Cordell Hull and the Case for Optimism

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Introduction

The news from Geneva of the breakdown of the Doha Round after seven years of effort has generated a great deal of pessimism about the future of multilateral trade agreements. America's troubles with the World Trade Organization (WTO) are of course only the beginning. There are also domestic problems when it comes to trade policy, an issue that ties together America's economic prosperity and its global political influence. Recent public opinion polls in the United States reveal increased skepticism about the benefits of globalization and diminished support for free trade policies. The post–World War II bipartisan consensus in favor of open trade has broken up, leading to greater resistance to new trade agreements in Congress, as reflected in the House's recent decision to postpone consideration of the Colombia free trade agreement (FTA). Despite efforts in the Doha Round to limit agricultural subsidies, Congress recently showered domestic farmers with more cash in the recently passed Farm Bill, even at a time when commodity prices are soaring.

These developments have given rise to the view that support for trade liberalization is so weak that it is not worth the effort. Although there have not been many explicit calls for "protectionism" in the sense of closing markets, several leading politicians have called for a "time out" or "strategic pause" for a reassessment of U.S. trade policy.[1] Buttressing this view is the perception that trade policy matters are less important than other aspects of American foreign policy and therefore can be ignored in coming years. In this environment, the next administration will find it extremely difficult to use trade policy to further U.S. economic and foreign policy goals.

This view overlooks the fact that trade and trade policy initiatives are important for the continued prosperity of the United States. While an active pursuit of new trade initiatives does not guarantee success, there are costs to inaction as well. A pause is tantamount to abandoning the trade agenda at best, and to risking a protectionist rollback of previous liberalization at worst. If such a pause occurs and the United States fails to

[1] The proposal of Senator Charles Schumer (D-NY) to levy 27.5 percent tariffs against China is less an attempt to increase employment in particular industries affected by imports from China than to give the administration more leverage in its efforts to change China's exchange rate regime, which arguably distorts trade flows.

provide leadership in this area, America's trade agenda will simply stall, the Doha Round will continue to languish, new free trade agreements will be in jeopardy, and other countries will move ahead with agreements that could be detrimental to U.S. interests. Furthermore, progress on trade liberalization furthers important foreign policy goals and is all the more critical when international relations are troubled.

At this critical juncture, therefore, it may be useful to put the current trade difficulties in historical context. Indeed, a historical perspective is useful for at least three reasons. First, history will remind us of the ultimate goals of U.S. trade policy that have been forgotten or lost in recent years—but that remain as important as ever. These goals were defined by Cordell Hull, who was America's longest-serving secretary of state, holding that office from 1933 to 1944 during the Roosevelt administration. Hull appreciated both the economic and political benefits of trade liberalization. He explicitly linked trade policy to foreign policy and saw commercial agreements as fostering international peace and cooperation.

Second, history offers some consolation: In the past, the U.S. government has found itself in similar situations, with a lack of domestic support for trade initiatives matched by an apparent indifference at the multilateral level about pursuing further liberalization. Success in trade negotiations was often followed by years of resounding failure. Yet the United States, and the world trading system more generally, have been able to surmount such obstacles. History indicates that progress at the multilateral level should be measured in terms of decades, not years. In light of this history, the lack of progress in the Doha Round and Congress's reluctance to move on trade is lamentable, but not surprising.

Third, a historical perspective allows us to take stock of the economic and foreign policy benefits of past trade achievements. Such a perspective can also give us some indication of the direction in which policy needs to go in order to complete the unfinished business of trade policy reform.

By putting current dilemmas in historical context, we come to see that today's trade-related difficulties may be less of a problem than is commonly thought. Congress has always posed an obstacle to those in the executive branch who have sought to advance the cause of trade liberalization, and yet it has almost always come through on the important initiatives, particularly when they have a clear foreign policy rationale and are backed by strong executive leadership. And the United States is not in an intractable situation in terms of international trade negotiations either, although the negotiations may take some time. Most importantly, the post–World War II system of international trade has been too much of a success for the United States to throw in the towel. A great deal of liberalization has been achieved over the past fifteen years, and now is the time to think strategically about America's trade-related priorities over the next decade.

Hull's Vision for American Trade Policy

For most of its history, the United States has wanted to have free and open commerce between nations and to abolish all restraints and preferences that inhibit trade. In particular, the founding fathers were students of the Enlightenment and rebelled against British mercantilism. "It is perhaps an erroneous opinion," Benjamin Franklin wrote in 1781,

> *but I find myself rather inclined to adopt that modern one, which supposes it is best for every country to leave its trade entirely free from all encumbrances. In general I would only observe that commerce, consisting in a mutual exchange of the necessaries and the conveniences of life, the more free and unrestrained it is the more it flourishes, and the happier are all the nations concerned in it. Most of the restraints put upon it in different countries seem to have been the projects of particulars for their private interest, under the pretense of public good.*[2]

The leaders of the young country attacked exclusive colonial trade networks around the world, especially those constructed by Great Britain, which kept American goods out of the markets of the British Empire. These foreign trade barriers (and the influence of special interests in domestic politics) became the excuse for erecting high import tariffs to protect native industries during the nineteenth and early twentieth century. Still, the United States never lost hope in the idea that world trade could be conducted on an open, nondiscriminatory basis, governed by the principle of equal treatment.

Although it did little to further these objectives in the nineteenth century, the United States always stood for equal access to all markets, especially for raw materials, on a competitive rather than state-controlled basis, and against exclusion, privilege, preferences, and discrimination. This principle has been important not just for economic reasons, to ensure fair treatment for U.S. business in foreign markets, but for foreign

[2] Thomas Jefferson also extolled the benefits of free commerce: "I think all the world would gain by setting commerce at perfect liberty," he wrote to John Adams in 1785.

policy reasons as well. Open commerce prevents the concentration of economic power and control of resources that can pose a political threat to American interests. For example, in 1899, Secretary of State John Hay called for an Open Door policy to establish the principle that all nations should have equal commercial and trading rights in China. This policy was given priority both for commercial as well as diplomatic reasons, so that China would not be dominated by any one power.

But the United States passed up many opportunities to further these goals because it made no effort to engage the rest of the world. After World War I, for instance, the nation reverted to an isolationist foreign economic policy, imposing high tariffs on foreign trade in 1922 and raising them further in 1930. A proliferation of trade barriers contributed to a downward spiral in world trade in the early 1930s. These anti-trade policies arose in part because countries sought to insulate themselves from the Great Depression through what became known as “beggar-thy-neighbor” policies. Blocking imports proved to be a futile method of increasing domestic employment due to the economic slump, however, because one country’s imports were another country’s exports. The combined effect of every country trying to save its own industries and protect its own workers was a collapse in trade, which merely exacerbated the problems of the world economy and contributed to political frictions between countries.

At this point, Cordell Hull stepped onto the stage. As a member of Congress during World War I, Hull had come to appreciate the global ramifications of domestic tariff policy. In his memoirs, Hull recalled,

> *When the war came in 1914, I was very soon impressed with two points. ... I saw that you could not separate the idea of commerce from the idea of war and peace. ... [and] that wars were often largely caused by economic rivalry conducted unfairly. ... But toward 1916 I embraced the philosophy that I carried throughout my twelve years as Secretary of State. ... From then on, to me, unhampered trade dovetailed with peace; high tariffs, trade barriers, and unfair economic competition, with war. Though realizing that many other factors were involved, I reasoned that, if we could get a freer flow of trade—freer in the sense of fewer discriminations and obstructions—so that one country would not be deadly*

jealous of another and the living standards of all countries might rise, thereby eliminating the economic dissatisfaction that breeds war, we might have a reasonable chance for lasting peace.[3]

As a result of the Great War, Hull began to call for not only free trade but also international cooperation on matters of trade policy. In 1916, he spoke up for establishing a permanent international convention that would consider

all international trade methods, practices, and policies which in their effects are calculated to create destructive commercial controversies or bitter economic wars, and to formulate agreements with respect thereto, designed to eliminate and avoid the injurious results and dangerous possibilities of economic warfare, and to promote fair and friendly trade relations among all the nations of the world.[4]

Hull's ideas influenced President Woodrow Wilson. In his famous Fourteen Points address in 1918, Wilson called for "absolute freedom of navigation upon the seas" and "the removal, so far as possible, of all economic barriers and the establishment of an equality of trade conditions among all the nations consenting to the peace and associating themselves for its maintenance" after the war. But these plans came to nothing.

It was in 1933, with the Great Depression at its worst, that Hull had the greatest impact on American trade policy. President Franklin D. Roosevelt tapped the Tennessean as secretary of state. Looking at the international scene, Hull saw closed markets, preferential agreements, and exclusive market privileges that restricted world trade in a way that only benefited powerful special interest groups while simultaneously giving rise to international political frictions. Hull sought to open negotiations to reduce these barriers. Yet New Dealers were suspicious of Hull because they believed that the government should manage trade, not free it. And Roosevelt, fearing the political

[3] Cordell Hull, *The Memoirs of Cordell Hull* (New York: Macmillan, 1948), pp. 81, 84. The idea of trade and peace has a long intellectual lineage. In 1848, John Stuart Mill expressed the idea this way: "It is commerce which is rapidly rendering war obsolete, by strengthening and multiplying the personal interests which act in natural opposition to it. And it may be said without exaggeration that the great extent and rapid increase of international trade, in being the principal guarantee of the peace of the world, is the great permanent security for the uninterrupted progress of the ideas, the institutions, and the character of the human race." See Mill's *Principles of Political Economy* (London: Longman Green, 1909), p. 582.

[4] Hull, *Memoirs,* pp. 81–82.

consequences of lower tariffs in the midst of high unemployment, gave Hull only tepid support. But Hull fought a hard battle to get the administration to propose and Congress to enact the Reciprocal Trade Agreements Act (RTAA) of 1934. This act, a forerunner to what today is known as Trade Promotion Authority, authorized the executive branch to undertake trade agreements. This got Congress out of the business of determining tariffs on an item by item basis, a process that had bred the infamous Hawley-Smoot Tariff Act of 1930, which established some of the highest protective tariffs in U.S. history. Under the RTAA, Congress delegated authority to the executive branch to reduce America's tariffs in exchange for foreign tariff reductions in trade agreements with other countries.

This authority allowed the United States to assume a leadership position in the world economy. Hull attempted to reach trade agreements to reduce barriers to world trade, and thereby combat the protectionism that had arisen around the world. And although Congress dictated that the United States stick to a policy of neutrality with respect to the European powers, Hull worked hard to use trade agreements to foster a closer political relationship with important foreign allies. Hull firmly believed that the collapse of the system of liberal trade had adverse consequences for world peace. Many of the political frictions of the period had economic roots, he and others believed, and so opening world trade could both help the economic recovery and reduce political tensions.

Unfortunately, Hull's program was too little, too late to stop the horrors taking place in Europe and Asia. He was often criticized as naïve for making the link between trade and political stability, but world events merely strengthened his convictions. As he would write,

> *a revival of world trade [would be] an essential element in the maintenance of world peace. By this I do not mean, of course, that flourishing international commerce is of itself a guaranty of peaceful international relations. But I do mean that without prosperous trade among nations any foundation for enduring peace becomes precarious and is ultimately destroyed.*

As World War II raged, Hull launched the federal government's planning for the postwar world. In addition to taking the lead in creating the United Nations, Hull worked toward expanding the Reciprocal Trade Agreements Act into a full-fledged, multilateral system of world trade. This became the General Agreement on Tariffs and Trade (GATT), the culmination of his efforts to make trade an instrument for achieving cooperation and peace. Hull also fought against Treasury Secretary Henry Morgenthau's plan to make postwar Germany an agrarian state. Given the country's bellicose record over the preceding half century, the idea seemed attractive to many. But Hull believed that the German economy should remain integrated with that of Europe and that rebuilding the industrial economy was more likely to prevent a repeat of World War II than to cause one.

After sixty years, we sometimes forget what a great success Hull's vision was. In the immediate postwar years, the future of Western Europe was highly uncertain. Many countries could have turned autocratic and antidemocratic or could have fallen into the Soviet sphere. Yet the integration of the Axis powers—Germany, Italy, and Japan—into the community of nations proceeded without much problem. Economic integration helped reestablish growth and thereby fostered political stability and secured the democratic political changes in each country. In particular, the success of this program in Western Europe, where the binding of French and German economies has made a war unthinkable, stands out.

In 1950, the French foreign minister, Robert Schuman, drew upon Hull's vision when he proposed that France and Germany organize a common authority to integrate the coal and steel industries in the two countries. The goal of the community was to remove all barriers to trade between the two nations in coal and steel products, and establish a common set of rules to control cartels and regulate mergers. As German Chancellor Konrad Adenauer[5] recalled in his memoirs,

> *In his personal letter to me, Schuman wrote that the purpose of his proposal was not economic, but eminently political. In France there was a fear that once Germany had recovered, she would attack France. He could imagine that the corresponding fears might be present in Germany. Rearmament always showed first in an increased production of coal, iron, and steel. If an organization such as*

[5] Konrad Adenauer, *Memoirs 1945–1953* (Chicago: Henry Regnery, 1966).

he was proposing were to be set up, it would enable each country to detect the first signs of rearmament, and would have an extraordinarily calming effect in France. Schuman's plan corresponded entirely with the ideas I had been advocating for a long time concerning the integration of the important industries of Europe. I informed Robert Schuman at once that I accepted his proposal wholeheartedly.

This was one of the first steps toward the establishment of the European Economic Community (EEC). It came about in part because the United States through the Marshall Plan insisted upon European economic cooperation. European political leaders realized that economic integration would indeed bring Germany into the broader community and thereby reduce the risk of conflict in the future.

Although Hull resigned as secretary of state in 1944 due to ill health, President Roosevelt was so grateful for his service that he pushed repeatedly to get Hull the Nobel Peace Prize. In 1945, Hull was awarded the prize for his untiring efforts to promote world peace through economic and diplomatic means.

Trade Policy after Hull

The record of the postwar economy is well-known, in particular its establishment of economic growth and political stability across Western Europe and Japan. These favorable outcomes were due at least in part to the success of trade liberalization after World War II and the rapid expansion of world trade that followed. But there is a tendency to look back at this period and believe that past liberalization was relatively easy to achieve, whereas things are much more difficult now. Trade observers seem to think of the 1950s and 1960s as the halcyon days of multilateral trade liberalization, when there was consensus and political will at home and abroad, and everything proceeded smoothly.

But again, this is a false reading of history. Past liberalization was never easy. Each of the GATT negotiating rounds was an extremely arduous effort. Postwar trade negotiation was never a linear process, but rather one with punctuated success at irregular intervals. For example, the GATT was the logical capstone of U.S. efforts at international economic cooperation. In order to create this institution, one imagines that there must have been a broad consensus to conclude a multilateral agreement on some basic principles of trade policy and to begin the process of reducing trade barriers.

But the institution's beginnings were tenuous. With Hull having left the State Department, the U.S.-led effort was predicated on a renewal of trade-negotiating authority by Congress in the spring of 1945. Despite the uncontested worldwide dominance of American industries after the war, the popularity of President Roosevelt, and the large Democratic majorities in Congress, the legislature was suspicious of granting trade authority to the executive. Most of those testifying before Congress represented narrow special interests—ranging from the pottery industry to dairy farmers—that opposed the renewal. Though controlled by Democrats, the Senate Finance Committee voted to strip the president of extra tariff-cutting authority that was necessary for there to be a successful postwar conference. This decision was reversed on the Senate floor. Even though the final vote on passage was comfortable, Dean Acheson, the assistant secretary of state responsible for ushering the legislation through Congress, noted that "this does not tell the true story. It was very close on the critical amendments which would have killed the bill."[6]

Obtaining negotiating authority from Congress was not the only domestic obstacle to reaching a postwar trade agreement. The Republicans, who had enacted the Hawley-Smoot tariff of 1930, and had opposed the trade agreements program since its inception in 1934, captured Congress in the 1946 midterm elections. With both Roosevelt and Hull no longer in charge, the new president, Harry S. Truman, was considered a political neophyte. The Republicans threatened to stop the meeting that was critical to the GATT's establishment, the Geneva conference of April 1947. To prevent Congress from undermining that conference, the Truman administration compromised with the Republican congressional leadership. They agreed to include a provision in any international agreement that would allow domestic industries to petition the government for trade relief if they were injured as a result of negotiated tariff reductions.

When it did take place, the GATT conference was plagued by further difficulties. As the Geneva negotiations began, the defiant Republican Congress passed legislation restricting imports of wool. Australia, a major wool exporter, threatened to walk out of the negotiations and bring the British Commonwealth with it. Such a move would have doomed the GATT. But in what Assistant Secretary of State William Clayton[7] viewed as "the greatest act of political courage that I have ever witnessed," President Truman not only vetoed the bill but snubbed Congress by authorizing a 25 percent reduction in the wool tariff. After that episode, which cost several months of negotiating time, the United States confronted Britain's imperial preferences. Despite pledges that it would reduce the margins of its preferential tariffs, Britain refused to do so at the conference. This caused American negotiators no end of frustration and almost scuttled the conference until face-saving compromises were reached.

Fortunately, the GATT's framers persevered. The GATT they created not only included an agreement to reduce tariff rates, but set out a code for commercial policy,

[6] The proposed amendment in the House to eliminate the authority to reduce tariffs by 50 percent from existing levels was narrowly rejected by a vote of 174 yeas to 197 nays. A swing of just twelve members of the House could have reversed the outcome of this crucial vote and brought down the plans for extensive trade liberalization after the war. Dean Acheson, *Present at the Creation: My Years in the State Department* (New York: W. W. Norton, 1969), p. 107.

[7] William L. Clayton, "GATT, the Marshall Plan, and OECD" Political Science Quarterly, Vol. 78, No. 1 (December 1963), pp. 493–503.

binding tariff levels so that they could not drift upward and specifying the circumstances and conditions under which new trade restrictions could be imposed. In contrast to the pervasive beggar-thy-neighbor trade barriers and special bilateral arrangements that had suppressed world trade during the 1930s, the GATT marked the start of cooperative, multilateral trade relations. According to one recent study, the initial GATT agreements increased trade of participating countries by nearly 100 percent relative to those not participating.[8]

Two notable failures immediately followed. First, American plans to fold the GATT into a broader agreement under a new body, the International Trade Organization (ITO), miscarried completely. There were high hopes that a United Nations conference in Havana from 1947 to 1948 would finalize the ITO charter and would have a broader array of provisions than just trade, such as investment, commodities, employment, and the like. The ITO would provide a capstone to global economic cooperation and include many more countries than just the twenty-three that participated in the GATT conference.

The Havana meeting proved just as contentious as the World Trade Organization meeting in Seattle in 1999. This was due in large part to the complaints of developing countries that various provisions would constrain their discretionary use of trade policies, ostensibly to foster their economic development. The compromise outcome was a lengthy, complicated, exception-ridden ITO charter. Ultimately, the charter failed to attract much domestic political support in the United States, even within the pro-trade business community, because it was widely viewed as a weak agreement in which the United States would adhere to the rules while other countries would take advantage of the exceptions. The Truman administration quietly withdrew the charter from Congress in 1950 when it became clear that it would not be approved.

The demise of the ITO had a silver lining. The GATT proved to be a small and efficient organization devoted exclusively to the reduction of government barriers to trade. The leading participants—mainly the United States, Canada, Western Europe, and Japan—all agreed on the core principle of reducing barriers to international trade in a

[8] Judith L. Goldstein, Douglas Rivers, and Michael Tomz, "Institutions in International Relations: Understanding the Effects of the GATT and the WTO on World Trade," *International Organization* Vol. 61, January 2007, pp. 37–67.

reciprocal way. The ITO would have been a large institution with a sprawling mandate, overseeing a mass of exceptions to the rules on limiting trade policy interventions, and dominated by illiberal developing countries. Some of the difficulties in reaching a consensus today at the WTO would have occurred much earlier had the ITO been in place, and thereby could have slowed the already slow pace of liberalization.

Meanwhile, evidence of the success of Hull's ideas was mounting. West Germany began to experience what was called an "economic miracle" and even Japan began to recover. The increasing political stability of both countries—rooted in economic expansion—vindicated Hull and, one might imagine, gave further impetus to trade liberalization.

Yet the opposite was the case. Several minor GATT rounds were held during the 1950s and early 1960s, but their main purpose was to admit new countries to the agreement, not to liberalize trade in a significant way.[9] Efforts by the Truman and Eisenhower administrations to initiate further negotiations crashed against the rocks of an intransigent Congress. Congress renewed trade negotiating authority only grudgingly and sometimes for just a year, thereby rendering it ineffective. What's more, Congress repeatedly inserted this reservation into the legislation: "The enactment of this Act shall not be construed to determine or indicate the approval or disapproval by the Congress of the Executive Agreement known as the General Agreement on Tariffs and Trade." Furthermore, in 1955, around the time of Hull's death, the United States requested a waiver from its GATT obligations with respect to its agricultural policies. The newly formed European Economic Community followed the American example by setting up the Common Agricultural Policy, which was also antithetical to GATT principles. In essence, a large segment of economic activity was completely written out of the GATT and excluded from trade liberalization efforts.

Those who are frustrated by the state of the Doha trade negotiations today might take comfort in knowing that the United States and its trading partners did not reach a major tariff-reduction agreement until the conclusion of the Kennedy Round in 1967, twenty years after the original Geneva conference. And even this success was purchased at a high price. In order to obtain negotiating authority from Congress in 1962, the

[9] During the GATT's hiatus in the 1950s, progress on trade liberalization continued in Europe with the elimination of quantitative trade restrictions and the formation of the Common Market.

Kennedy administration was forced to buy off the opposition of the textile and apparel industry through the Short-term and Long-term Arrangement (LTA) on cotton textiles. These measures established caps on the growth of imports of cotton textiles on a product and country basis. Although it originally covered just cotton goods from Japan and Hong Kong, the restrictions were gradually extended to many other exporters (Taiwan, Korea) and many other types of fabrics (wool, synthetics). Fearing that textiles would be diverted from the U.S. market to their own, European countries adopted similar arrangements. The policies eventually metastasized into the Multifiber Arrangement (MFA) in 1974. The LTA and MFA effectively exempted another huge chunk of world trade from GATT disciplines.

As they do today, free-trade Democrats in the 1960s faced trouble within their own party and with Republicans. The Kennedy administration confronted such domestic resistance that economist Jacob Viner concluded that “in Congress at least, and perhaps also in the country at large, the tide is running in a protectionist direction, supported no doubt by the current recession and our balance of payments difficulties.”[10] Even though the Kennedy Round succeeded in reducing American, European, and Japanese tariffs on industrial products to lower levels, the United States was deeply disappointed that its goal of liberalizing trade in agricultural goods was stymied by European opposition. The round ended with greater pessimism than optimism about the prospect for future negotiations.

Worse, the U.S. mood on trade soured even more significantly in the late 1960s and early 1970s. By then, the recovery of European and Japanese economies put major U.S. industries under pressure from foreign competition for the first time in the post–World War II period. In 1970, Ways and Means Committee chairman Wilbur Mills (D-AR) led the House in passing a bill to establish mandatory quotas on apparel and footwear. Although Congress adjourned before the Senate could act on that bill, there was much vocal congressional support in 1971–72 for the notorious Burke-Hartke bill, which would have established quotas on an even wider array of U.S. imports. In addition, the steel industry succeeded in pressuring the Johnson and Nixon administrations to

[10] Jacob Viner, “Economic Policy for the New Frontier,” *Foreign Affairs,* Vol. 39, July 1961.

extract voluntary export restraints from European and Japanese suppliers. It was during this period that C. Fred Bergsten, Henry Kissinger's assistant for international economic policy at the National Security Council, wrote of the "crisis" in U.S. trade policy: "Since 1962, U.S. trade policy has been moving steadily away from the liberal trade approach which had characterized it since 1934 and which has been the objective of every administration since that time."[11] Not only was the outlook for multilateral negotiations grim, but there appeared to be increasing protectionist backsliding in many areas as well.

Congress granted the Nixon administration trade negotiating authority in 1974 to participate in the Tokyo Round, but also relaxed the requirements of administered protection, the so-called unfair trade laws, thereby making it easier for petitioning industries to receive trade protection through antidumping, countervailing duties, and escape clause provisions. The result was an explosion in the demands from import-affected industries for trade relief. In the late 1970s, economist Robert Baldwin observed that "the Carter administration is facing protectionist pressures from particular industries and labor groups that are stronger than at any time since the early 1930s."[12]

The Tokyo Round took six years to complete and proved to be a disappointment: Although it reduced already low tariffs on manufactured products in developed countries, only a weak agreement on nontariff barriers was reached, adherence to which was optional. Agricultural and textile and apparel trade restrictions continued to be untouched, and, even more disappointing, the round failed to reign in the proliferation of formal and informal trade restrictions, such as voluntary restraint agreements, orderly market arrangements, and trigger-price mechanisms in such import-sensitive sectors as footwear, consumer electronics, and steel. This prompted international law expert John H. Jackson to pen his famous article on "The Crumbling Institutions of the Liberal Trade System" in 1978.[13] The GATT, Jackson warned, was on the verge of irrelevance, its rules routinely ignored as evidenced by its inability to stem the spread of voluntary export restraints, and its membership incapable of making progress on promoting trade

[11] C. Fred Bergsten, "Crisis in U.S. Trade Policy," *Foreign Affairs*, Vol. 49, July 1971.
[12] Cited in Robert Pastor, "The Cry and Sigh Syndrome: Congress and U.S. Trade Policy," in Allen Schick, (ed.), *Making Economic Policy in Congress* (Washington, DC: AEI Press, 1983).
[13] John H. Jackson, "The Crumbling Institutions of the Liberal Trade System," *Journal of World Trade Law*, Vol. 12, 1978, pp. 93–106.

liberalization. Capturing the temper of the times, Jackson was not alone in arguing that the GATT was in tatters.

The deep worldwide recession of the early 1980s further dimmed the prospects for trade liberalization. In a 1982 article, "The 1980s: Twilight of the Open Trading System?" C. Michael Aho and Thomas O. Bayard argued that "the problems confronting the open trading system are very grave" and that "unprecedented economic and political strains threaten the credibility and viability of the entire system."[14] They seemed to be correct: A GATT ministerial meeting held later that year failed to launch a new trade round, but issued a call for a "standstill and rollback" of new trade protectionism, which was promptly ignored. In the early and mid-1980s, the House passed several protectionist trade bills, including measures mandating domestic content in automobiles, imposing steel quotas, and tightening restrictions on imported textiles. Meanwhile, the Reagan administration negotiated a voluntary export-restraint agreement with Japan in automobiles and with other major countries in steel. Indeed, the Reagan administration was routinely pilloried by some for allowing important American industries to suffer at the hands of unfair foreign competition and by others for being the most protectionist administration since Herbert Hoover. Writing in *Foreign Affairs*, Robert Reich captured the spirit of the period in arguing that "the classical principle of free trade no longer offers any practical or politically compelling alternative to protectionism … The free-trade ideal has been eroding—both within the United States and among America's trading partners—for over a decade."[15]

Although a new GATT trade round was launched, the executive branch did not receive negotiating authority from Congress until 1988 and the round was not concluded until 1994. Still, it is instructive to go back and read the pronouncements before the conclusion of the Uruguay Round. That round was written off with the same frustration and pessimism that we see today with respect to the Doha Round. For example, economist Lester Thurow pronounced that the "GATT is dead" because it had failed to move for so long.[16]

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[14] C. Michael Aho and Thomas O.. Bayard, "The 1980s: Twilight of the Open Trading System?" *The World Economy*, Volume 5, Issue 4, December 1982, pp. 379-406.

[15] Robert Reich, "Beyond Free Trade," *Foreign Affairs,* Vol. 61, Spring 1983, pp. 774–775.

[16] Lestor C. Thurow, "GATT is Dead; the World Economy as We Know It Is Coming to an End, Taking the

Yet, despite the difficulties, the Uruguay Round was eventually completed and proved to be a major accomplishment. More than most postwar rounds that only whittled away at tariff barriers in developed countries, the Uruguay Round succeeded in doing much more. It abolished the Multifiber Arrangement, banned voluntary export restraints, brought agriculture into the trading system, established a dispute settlement system, created the World Trade Organization, and extended rules to services, intellectual property, and investment (with varying degrees of discipline). The round was a single undertaking, meaning that all countries had to sign on to the agreements, as opposed to the optional "GATT a la carte" approach in which countries could pick and choose which agreements to adhere to.

In essence, the Uruguay Round cleaned up much of the debris that previous GATT negotiations had failed to deal with. All of the protectionist detritus from the 1960s, 1970s, and 1980s was eliminated, and only contingent protection, such as antidumping, countervailing duties, and safeguards, remained as acceptable forms of restricting trade. Furthermore, the WTO has a more solid institutional base and a much stronger set of rules and disciplines than the GATT had. (Indeed, some observers now think that the institution is too strong in the realm of dispute settlement and needs more diplomatic flexibility in resolving disputes.) In any event, the trade regime did not crumble in the way that many had anticipated thirty years ago.

Thus, despite past difficulties, despite pervasive pessimism about the strength of protectionism, despite Congress's reluctant support, the current policy stance is remarkable: World trade has never been more open and free of government restriction than it is now. Would anyone who supports the liberal trading system exchange the trade policies of the world in 2008 with those in 1978?

General Agreements on Tariffs and Trade with It," *Journal of Accountancy,* Vol. 170, 1990, pp. 36–39.

The Challenge Today

Many trade observers believe that today's difficulties are harder to overcome than the challenges of the past. This is said to be so for three reasons. First, the end of the Cold War is said to have deprived trade liberalization of its foreign policy impetus. Second, the bipartisan consensus that supported liberal trade policies for much of the postwar period has vanished, making congressional approval of trade agreements much more difficult. Third, the WTO now has over 150 members and has become unwieldy, it is argued, making it a dysfunctional organization, unable to operate effectively and secure an agreement.

But each of these claims loses some of its force when we look at past experience. For example, it has often been said that the linkage between trade policy and foreign policy has broken down. As C. Fred Bergsten once wrote back in the early 1970s, "The economic argument was never sufficient by itself, however, to support a liberal trade policy for the United States. It was the foreign policy case that provided the real impetus for liberal trade policies in the United States in the postwar period. Today, neither the economic nor the foreign policy argument for liberal trade commands much support in the United States."[17]

Trade agreements continue to have important foreign policy implications. The United States may no longer be locked in the Cold War, but new threats of equal scale in both the Middle East and Latin America create new imperatives for action. The United States currently confronts challenges to its position in Latin America from the socialist, anti-American leadership of President Hugo Chávez of Venezuela. In the context of containing such figures as Chávez, Hull's methods continue to offer value. This spirit was evident in the recent congressional vote on the free trade agreement with Peru, which was passed with a fair degree of bipartisan support. Many members of Congress on both sides of the aisle argued that it was important to shore up relations with an important ally in Latin America. "There is a growing division in Latin America today," said Senator Chuck Grassley of Iowa, the ranking Republican on the Senate Finance Committee. "We

[17] C. Fred Bergsten, "Crisis in U.S. Trade Policy," *Foreign Affairs,* Vol. 49, July 1971.

ought to help countries like Peru that are not going the direction of Venezuela."[18] These foreign policy concerns are also an issue in the free trade agreement with Colombia, where Venezuela has allegedly been arming antigovernment insurgents in an effort to destabilize the pro-American regime.

Several piecemeal trade policies have also been used to promote economic development in some of the poorest regions of the world, including the Caribbean Basin Initiative (1982), the Andean Trade Preferences Act (1991), and the African Growth and Opportunity Act (2000). These unilateral and unreciprocated acts of opening the U.S. market (in a very modest but helpful way) aim to achieve specific regional objectives: to promote growth and stability in the Caribbean area, to shift Andean countries away from illegal drug production, and to foster economic development and poverty reduction in a desperately poor continent.[19] Each of these initiatives involves the use of economic incentives to promote economic development and thereby indirectly further American foreign policy interests. Each has been renewed on many occasions with bipartisan support.

There are several parts of the world in which trade and foreign policy are not yet linked to their fullest potential. Cuba today, as in Hull's time, is at a turning point. Opening trade with Cuba might be the fastest way of strengthening and empowering that country's private sector, and thereby indirectly promoting a more liberal political system by undermining the power of the communist government.

Fostering economic reform in the Middle East is also a valuable component of U.S. foreign policy in the region because, despite its oil wealth, much of the area remains economically isolated or repressed. The United States has sought trade agreements to strengthen ties with moderate, pro-Western allies in the region, such as Jordan, Morocco,

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[18] Steven R. Weisman, "Senate Approves Peru Trade Deal," *New York Times*, December 4, 2007.

[19] For example, the Andean Trade Preferences Act (ATPA) came as a result of the Cartegena drug summit in 1990 to expand economic incentives to encourage four countries—Bolivia, Colombia, Ecuador, and Peru—to shift out of the production, processing, and shipment of illegal drugs and into legal commodities. The United States granted additional market access for flowers, fruits, and vegetables such as artichokes, beans, and broccoli. The trade-based incentives of the ATPA aim to encourage legal, export-led alternatives to illegal drug crop production. The program has been a modest success at limiting the influence of drug cartels that are politically destabilizing. As the International Trade Commission reported, "It is difficult to isolate the impact of ATPA on drug-related crop eradication and crop substitution and alternative development. Nonetheless ... the Commission estimates that in 2005 ATPA continued to have a small but positive [impact] in stemming further growth of the drug trade in the Andean region."

Bahrain, and Oman. In 2003, Congress gave bipartisan support for trade engagement with the region through the Middle East Trade and Engagement Act of 2003.[20] Although these initiatives have not advanced very far, the creation of new commercial ties could help give businesses a stake in politically moderate, more open and tolerant governments.

One problem with this bilateral and regional approach is that it departs from Hull's hope for a world free of discriminatory trade policies. Although Hull also used bilateral trade agreements under the RTAA in the 1930s, he was insistent that they be concluded with the unconditional most-favored nation (MFN) clause. Under unconditional MFN, all tariff reductions reached bilaterally or under the GATT would be generalized to all other countries eligible for MFN treatment. However, recent U.S. bilateral and regional free trade agreements discriminate against nonparticipating countries. Although current advocates of this approach argue that such agreements are necessary when large multilateral rounds have stalled, economists such as Jagdish Bhagwati note that departing from unconditional MFN has both economic and political costs. Resolving this conflict between multilateral and bilateral agreements is one of the many challenges facing the world trading system.[21]

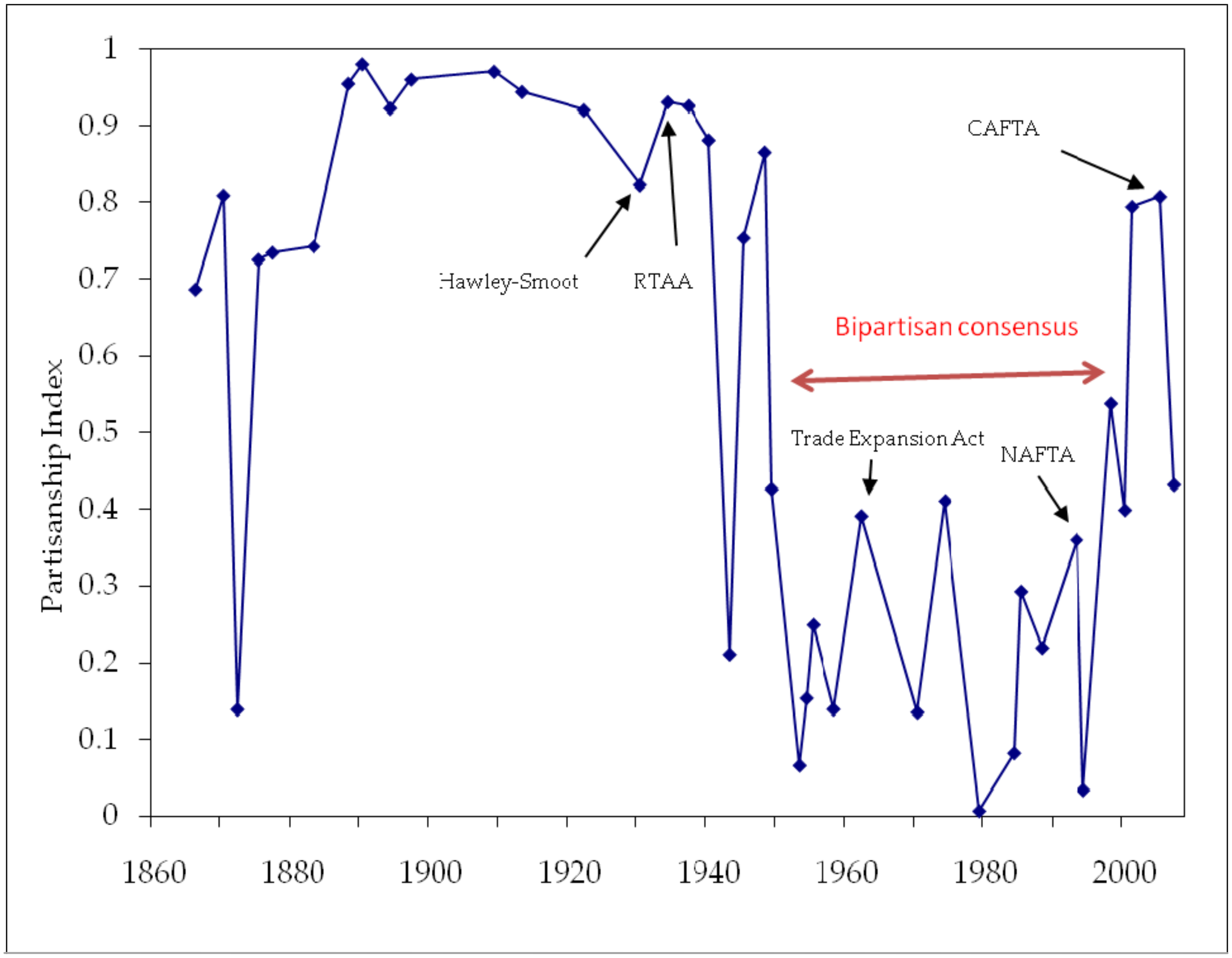
The second major change from the past is said to be the erosion of the bipartisan consensus about the importance of liberal trade policies. But the most distinctive change in American trade politics in recent decades is the switch in positions by the political parties with respect to trade issues. As Figure 1 shows, Republican support for more liberal trade began in the 1940s, whereas Democratic opposition to more liberal trade became pronounced in the 1990s. The congressional debate over the North American Free Trade Agreement (NAFTA) is commonly considered to be the *battle royale* over pro- and anti-trade forces. Yet the degree of partisan division over NAFTA in 1993 was

[20] This bipartisan act set out some of the foreign policy rationales for more open trade policies: "(1) it is in the mutual interest of the United States and the countries of the greater Middle East to promote stable and sustainable growth and development throughout the greater Middle East; (2) Congress views democratization and economic progress in the countries of the greater Middle East as important elements of a policy to address terrorism and endemic instability; (3) free trade relationships are not a substitute for, but a complement to, necessary political and economic reforms that lead to political liberalization and economic freedom; (4) the countries of the greater Middle East have enormous economic potential and are of enduring political significance to the United States.

[21] Jagdish Bhagwati, *Termites in the Trading System: How Preferential Agreements Undermine Free Trade* (New York: Oxford University Press, 2008).

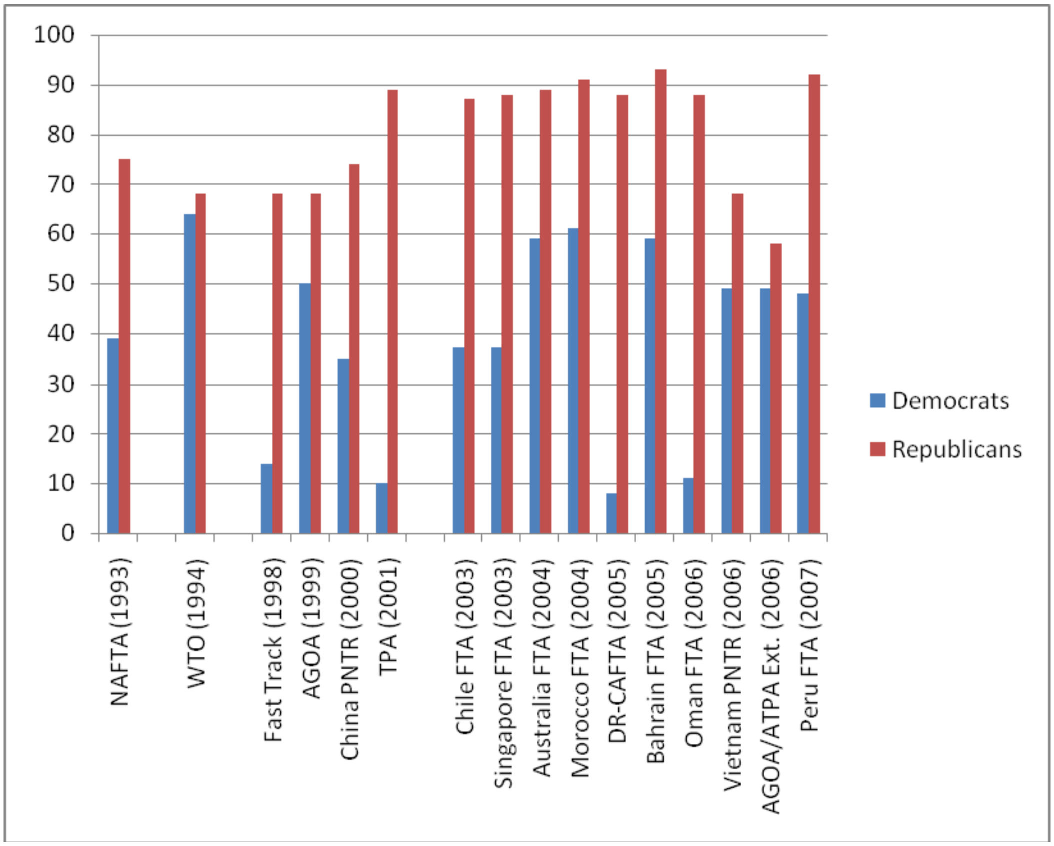
no greater than that over the Trade Expansion Act of 1962, except that the parties had switched places.

Figure 1: Support for Trade Liberalization, U.S. House of Representatives, 1866–2007



Source: Author's calculations. The partisanship index indicates the degree to which the votes of the two parties differed from one another. The index is the share of Democrats supporting lower tariffs minus the share of Republicans supporting lower tariffs. The index runs from a value of zero (both parties voted in the same proportion on the issue) to one (both parties are diametrically opposed to one another).

Figure 2: Partisan Support for Recent Trade Initiatives



Source: Compiled by the author from the Congressional trade policy votes available from the Center for Trade Policy Studies, Cato Institute (http://freetrade.org/congress).

Recent Democratic opposition tends to be confined to a few high-profile trade votes, not all trade initiatives. Figure 2 shows that Democratic support on many recent trade votes has been close to 50 percent, except in three prominent cases: Trade Promotion Authority (2001), the Dominican Republican-Central American FTA (2005), and the Oman FTA (2006). The party has given more than modest support for other free trade agreements and unilateral preferences. And for the big multilateral trade rounds, that is, the approval of the Tokyo Round and the Uruguay Round, there was an overwhelming bipartisan consensus. While Democratic support for trade initiatives is not as strong as it was in the past, it is closer to the truth to say that the party is split rather than wholly opposed to pro-trade legislation, just as the Republicans were in the 1940s and 1950s.[22]

Another reason for hope is that trade agreements no longer disadvantage certain import-competing industries in the United States as much as they might have in the past. Indeed, the impact of new trade agreements on import-sensitive sectors is minimal. The United States has reduced its formal barriers on merchandise trade to such an extent that there is almost nothing—save agricultural subsidies and quotas and a few high tariffs on labor-intensive manufactures—left to remove. U.S. trade barriers are at historically low levels: Last year, about 70 percent of U.S. imports entered the country duty free, and the average tariff on all imports was just 1.4 percent. Removing those barriers would have increased imports by $19.6 billion, or 1.1 percent, in 2005, according to the International Trade Commission; by contrast, U.S. imports actually increased 13 percent in 2005 over the previous year. The ITC estimated that a removal of all existing significant import restraints would affect only 60,000 workers over five years—in comparison to the roughly 140,000 Americans who change their jobs every day.

Simply put, the domestic economic adjustment that would accompany the removal of existing U.S. barriers to merchandise trade is extremely small. It should follow that the executive and legislative branches face fewer domestic political problems in securing support for trade agreements. This does not mean that the economic benefits from new agreements will be small; the United States will gain as other countries open up their markets, to some extent to merchandise exporters, but particularly to U.S. service exporters and providers. But it does mean that new trade agreements are likely to require one-sided policy changes, requiring much greater changes by foreign countries than by the United States. For example, the accession of China to the World Trade Organization involved unilateral policy changes on the part of China, with no change in U.S. policy toward that country. Similarly, in the case of the U.S.-Colombia FTA, in its investigation, the International Trade Commission concluded that the agreement would have virtually

[22] Of course, the fate of the bilateral trade agreements with Colombia and South Korea will be important indicators of the current Democratic position on trade.

no effect on American jobs because more than 90 percent of Colombia's goods enter the U.S. market without duty and the country only accounted for 0.5 percent of U.S. trade. [23]

What about the World Trade Organization, which has been the topic of much discussion? If anywhere, there is some cause for concern here. One significant change over the past few decades has been the evolution of the GATT from a small club dominated by developed countries to a large organization with over 150 members, most of whom are developing countries. Although some developing countries have been parties to the GATT for many decades, they did not participate in the trade liberalization rounds and were exempt from many of the agreement's disciplines. With the Uruguay Round, developing countries became full participants in the WTO and agreed to adhere to all rules and agreements, including new obligations with respect to trade in services and intellectual property, as a "single undertaking."

This achievement has also created some problems. Reaching agreement among 150 member countries in an organization that operates on the basis of consensus is problematic, even when many developing countries look to China or Brazil or India for leadership, bringing the effective number of participants down to fewer than a dozen. In addition, developing countries believe that they took on more obligations in the Uruguay Round than they received, and assert that they are owed nonreciprocal concessions in current negotiations (hence the Doha Round has been named the "development" round).

Indeed, the biggest threat to the WTO as a trade liberalization body comes from its membership.[24] Alan Oxley, Australia's former ambassador to the GATT, says a core value is imperiled—that everyone must liberalize for the common good. In his view, the developing countries that form at least half of the WTO do not view the institution as a place to liberalize, but as a place to receive trade charity in the form of unreciprocated

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[23] For example, in the recent U.S.-Colombia FTA, there would be a small impact on U.S. exports and almost none on U.S. imports. Whereas the American exports faced tariffs in the 10–20 percent range in Colombia, about 90 percent of Colombia's exports to the United States in 2005 entered duty free because of existing Andean trade preferences.

[24] It is important to recall what is not blocking a multilateral agreement: Antiglobalization forces are not responsible for the delayed completion of the Doha Round. The great concern after the WTO ministerial meeting in Seattle in 1999 was that anti-trade, nongovernmental organizations (NGOs)—or the New Millennium collectivists, as David Henderson calls them—posed a dire threat to the open trading system. But since 1999, such groups have not posed the obstacles that were once feared. Now these groups are weak, divided, and lack a positive agenda for the future. David Henderson et al., *Anti-liberalism 2000: The Rise of New Millennium Collectivism* (London: Institute of Economic Affairs, 2001).

preferences. This attitude is not good for the institution, and it could block another single undertaking.[25]

Without a common political commitment to reduce trade barriers, there is little that can be accomplished in the WTO. The WTO could be at risk of becoming like the United Nations: a forum for debate but not much action. The WTO is nothing more or less than what the membership wants it to be, and can collectively achieve. Because of these problems, Georgetown University law professor Daniel K. Tarullo suggests that the era of the "grand multilateral round" may be over.[26]

Nonetheless, it is much too early to give up hope for the WTO and the completion of the Doha Round. Though most Americans may not be aware of it, the WTO remains a working entity. After its founding, the members of the WTO reached several smaller agreements: an Information Technology Agreement in 1996 eliminated most tariffs on computers, semiconductors and telecom gear; financial services and basic telecommunications agreements in 1997 addressed certain aspects of services trade; and a "duty-free cyberspace" agreement in 1998 has provided a framework for restricting charges on emails and data transfers. And the WTO is still a useful forum in which certain bargains—such as agricultural subsidies, services, etc.—can be most efficiently struck. One can still envision the scaling back of agricultural subsidies and the elimination of tariffs on labor-intensive manufactured goods as part of a grand bargain in exchange for services liberalization in developing countries. One does not have to give up on the WTO as a trade liberalization body, but simply recognize that, as in the past, big breakthroughs come only sporadically, but are usually worth the wait. The Uruguay Round took seven years to complete, more than the six years of the Tokyo Round or the four years of the Kennedy Round, and hence the Doha Round—now at seven years—might be considered roughly on track. Despite the collapse of the July 2008 Geneva ministerial meeting, WTO Director-General Pascal Lamy said that negotiators agreed on 85 percent of the issues. One must simply await the right time to address the remaining 15 percent.

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[25] Alan Oxley, "The WTO is in Trouble," February 10, 2005, available at http://www.techcentralstation.com.

[26] Daniel K. Tarullo, "The end of the big trade deal: why Doha will be the last of the grand multilateral trade negotiations," *The International Economy*, Summer 2006.

Furthermore, other adjustments can be made to avoid the problems associated with a divided membership. Plurilateral agreements, involving a large subset of the WTO membership, perhaps by region or on specific issues, such as those reached during the Tokyo Round, may be a way to avoid intransigent nonliberalizers. The multilateral system has never been the only force for opening trade: Most of the liberalization of trade in Europe has come through the formation of the European Economic Community in 1957 and later endeavors, in North America through NAFTA, and in many other countries—notably Australia, Chile, China, India, and Mexico—through unilateral initiatives.

Even if it plays a smaller role in trade liberalization in the future, the WTO remains a critically important institution for economic and foreign policy reasons. The United States has invested tremendous effort in establishing international trade rules to ensure that world commerce is conducted equitably under a stable institutional framework. As Princeton University professor G. John Ikenberry has argued, open trade and institutions such as the WTO are an important way of embedding China in a network of existing institutions, preserving the status quo, and serving the interests of stability.[27] Nondiscriminatory multilateral trade is a way of ensuring that China does not create a self-contained trade bloc with preferential access to raw materials and consumer markets (reminiscent of Japan's Great East Asia Co-Prosperity Sphere in the 1930s). Such a development would prove detrimental to American economic and political interests in the region, which is why it has always supported "open door" policies. The economic rise of China creates challenges for U.S. policy in Asia and elsewhere, and rules-based institutions provide a way of embedding China in a system that serves the long-run interests of the United States.

The existing WTO agreements are extremely valuable in providing a stable framework for commercial policies around the world, and are very much worth preserving. Any action by the United States to ignore or deviate from these rules would trigger a similar move by others, severely damaging the trade regime that has been so carefully constructed over many decades. Even if the full membership of the WTO finds

[27] G. John Ikenberry, "The Rise of China and the Future of the West: Can the Liberal System Survive?" *Foreign Affairs*, Vol. 87, January/February 2008.

it difficult to liberalize further, all nations share an interest in ensuring that the rules do not unravel and begin to limit each country's access to other markets.

Thus, despite the end of the Cold War and other geopolitical changes, trade policy will continue to have an important foreign policy rationale. To the extent that the United States wants to remain engaged in certain regions of the world and promote certain interests, trade policy will always be a tool to further those goals. And although the WTO operates slowly, it serves American interests. For this reason, there is still hope that trade policy can enlist a bipartisan consensus.

The Unfinished Agenda

This essay has tried to put the current trade problems—those at home and those at the multilateral level—into some historical perspective. There does not appear to be an outbreak of protectionism in the sense of demands to close the American market to trade. Indeed, while commentators routinely warn of growing protectionist pressures, these pressures have been surprisingly muted in recent years and have been completely ineffective in reversing the general trend toward ever greater liberalization. This is because there is a widespread recognition that protectionism is not a solution to the problems of the U.S. economy. Unlike the period before World War II, when restricting trade would have been considered an acceptable policy alternative, most policymakers today recognize that trade restrictions would fail to achieve their purported objective (whether it be helping the middle class, saving the manufacturing sector, or creating new employment) and would most likely backfire and harm the economy.[28]

In addition, there were no multilateral trade agreements prior to World War II, giving governments the freedom to raise tariffs. Now governments are constrained by WTO rules and face certain retaliation against their exports should they deviate from their agreements. In part because the long-run benefits of open trade have been locked into a strong institutional setting, protectionism arising from globalization backlash is not on the horizon. Finally, governments now manage social safety nets in which they can redistribute income through transfer payments and the tax code, something they did not do in previous eras. Those adversely affected by economic change can receive government assistance through avenues that avoid protectionist trade policies.

However, while there are few demands to raise barriers, there is substantial resistance to reducing trade barriers at a more rapid pace. Thus, the United States is not so much experiencing globalization backlash as it is globalization fatigue. This fatigue,

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[28] Even more than in the 1980s, when many industries received temporary protection from import competition, protectionism today will not work to restore manufacturing jobs or strengthen the middle class because an enormous amount of international trade is in intermediate goods. The production networks involved in the global supply chain of goods are so intricately linked that identifying precise trade interventions that will actually "save jobs," without having adverse repercussions for other sectors of the economy, is virtually impossible. As Peter Mandelson, the EU trade commissioner, stated, "It is irresponsible to be pretending to people you can erect new protection, new trade barriers around your economy in this 21st century global age and still succeed in sustaining peoples' living standards and jobs. It is a mirage and they know it." *Financial Times*, "EU trade chief hits at Democratic hopefuls," May 7, 2008.

evident abroad as well as at home, has arisen because of the rapid growth in world trade in recent years as well as the many changes in the world trading system. The world is still digesting the Uruguay Round, which brought about major changes in dispute settlement and intellectual property rights protection, along with the abolition of the Multifiber Arrangement. In addition, China has been folded into the world trading system, which, along with the lingering effects of the NAFTA debate, has created indigestion in terms of U.S. trade politics. Because of all of the rapid changes in the global economy, there is little political enthusiasm for major efforts at trade liberalization in the United States and elsewhere.

This pause should not be confused with protectionism. America's commitment to an open world trading system has survived many public scares in the past: the fear of foreign investment by U.S. multinationals in the 1970s; the concern over competition in high-technology industries from Japan in the 1980s; the "giant sucking sound" of manufacturing jobs going to Mexico as a result of NAFTA in the 1990s; the worries about the impact of China on manufacturing, and the fear of service outsourcing to India in the 2000s. The question is how quickly to move forward, not how fast to restrict trade in the future.

One advantage of viewing the world trading system through the lens of history is that one can appreciate what has been accomplished in the past and see more clearly what remains to be achieved in the future. The United States helped create the GATT to address a very specific economic and political problem: the suppression of world trade as a result of high trade barriers and the adverse political consequences that stemmed from the resulting disruption of trade. To an amazing degree, the problems of the 1930s and 1940s that the GATT was designed to overcome have been addressed. The current relatively low level of barriers to world trade stands in sharp contrast to the intense protectionism of the 1930s.

With the success of trade regime over the past sixty years firmly in mind, the trade policy community should be less afraid about protectionism unraveling the past gains and look forward to charting a new course for trade policy. The question is: What current problems should the world trading system focus on? Setting aside specific concerns involving particular regions or countries, unfinished business includes the following four issues.

ABOLISHING TARIFFS

Eliminating tariffs is within reach for the developed countries. As noted earlier, the average tariff imposed by the United States is less than 2 percent; such tariffs as remain are mainly levied on a few labor-intensive manufactured goods. These tariffs are regressive in that their impact is disproportionately large on poor developing countries (particularly those excluded from trade preferences such as the Caribbean Basin Initiative, the Andean Trade Preference Act, and the African Growth and Opportunity Act) and on poor consumers in the United States. As Edward Gresser, director of the Project on Trade and Global Markets at the Progressive Policy Institute, points out, the U.S. tariff burden on goods from Cambodia and Pakistan is much more onerous than that placed on exports from France or Japan.[29] There is an equity and an efficiency case for phasing out these tariffs over a long period, say ten or twenty years, in concert with other developed countries, such as the EU and Japan, which also have very low average tariff levels and would not face serious difficulty in abolishing them.

Such a goal would be more problematic for developing countries and would depend upon their own economic development. Given that trade policy reform in the developing world has tended to arise through the unilateral and not the multilateral process, these countries would have to come to a domestic consensus in favor of that objective. But the developed countries could set an example now that others could emulate later.

REMAINING COMMITTED TO AGRICULTURAL REFORM

Agricultural policy was included in multilateral negotiations for the first time during the Uruguay Round. The next step is to begin ratcheting down the high levels of trade-distorting tariffs, subsidies, quotas, and other restrictions that impede trade in food and agricultural goods. There are strong domestic equity and efficiency reasons for

[29] Edward Gresser, “Toughest on the Poor: America's Flawed Tariff System,” *Foreign Affairs*, Vol. 81, November/December 2002.

agricultural trade reform, but such reforms are difficult to undertake unilaterally because of the interlocking nature of the trade barriers, where subsidies and barriers in one country provide justification for those in another. The multilateral process of the WTO can facilitate the process of scaling back trade-distorting policies over time.

Once again, if developing countries are not willing to participate in a long-term phaseout or reduction in these agricultural policies, the United States, the EU, and other partners should begin the process themselves.

RENEWING EFFORTS AT THE WTO

The WTO will remain an important forum for trade negotiations, particularly on such issues as agriculture, where unilateral reforms are less likely to succeed than coordinated multilateral reforms. But even if these negotiations are protracted, history has shown that long gaps in the multilateral process can be followed by surprisingly large achievements. Furthermore, the WTO is more than just a body for negotiating changes in trade policy; it is equally if not more important as a repository of the rules of commercial policy for the binding commitments to which countries have entered into. The system itself, the rules and dispute settlement procedures, are of lasting economic and foreign policy value.

FACILITATING THE FLOW OF TRADE

Many studies have shown that some of the most significant barriers to trade in developing countries are not government policy barriers, but trading costs associated with customs delays, poorly managed ports, and infrastructure. To the extent that such obstacles can be overcome with foreign assistance, developed countries should offer developing countries help in facilitating the flow of trade, giving the poor greater access to the markets of the world.[30]

In conclusion, despite the current political environment, the next administration will have an opportunity to recapture a historic purpose of U.S. trade policy. The United States should not lose sight of Cordell Hull’s ultimate objective: peace achieved through

[30] See Daniel J. Ikenson, “While Doha Sleeps: Securing Economic Growth through Trade Facilitation,” Trade Policy Analysis No. 37, Cato Institution, July 2008.

multilateral diplomatic efforts that include lowering barriers to international trade. Hull inspired the State Department's efforts to develop more ambitious plans to reduce trade barriers after the war "based on a conviction that such liberal commercial policies and the development of the volume of commerce would constitute an essential foundation of any peace structure that civilized nations might erect following the war." Economists and political scientists have found empirical support for the proposition that trade promotes more democratic political systems, which in turn tend to be more peaceful than other regimes. Given the dangers that the United States continues to face in the world today, particularly in those regions of the world that are most cut off from the global economy, the goal of using trade as an indirect but useful instrument for fostering international cooperation and moving toward a more peaceful world should remain a important rationale for current and future U.S. trade policy.

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