

OPINION | COMMENTARY

## *How American Free Trade Can Outdo China*

The Trump years left the U.S. ceding ground for its exports. Biden can regain it, with the help of allies.

By Henry M. Paulson Jr.

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Katherine Tai, President Biden's nominee for U.S. Trade Representative, speaks in Wilmington, Del., Dec. 11, 2020.

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President Biden's announcement that America is back—ready to engage in the diplomacy that has been a hallmark of our leadership for generations—was music to the ears of those who believe U.S. leadership is essential to global order. Unfortunately, trade didn't make the cut when the president outlined diplomatic priorities. This merits rethinking.

The U.S. and China are engaged in a strategic competition that will determine the shape of global politics this century. But when it comes to trade, a critical dimension of that competition, America is ceding the field.

In recent years, the U.S. has imposed unilateral tariffs and trade barriers on allies and adversaries alike. Controls on the trade of technology, while important for national security, have been unnecessarily broad and often unilateral. The U.S. withdrew from the Trans-Pacific Partnership (TPP). And it has, through a mixture of negligence and obstruction, hobbled the World Trade Organization. These actions undermined America's leadership of the global trade system, to the dismay of our allies and partners and to the detriment of our firms and workers.

At the same time, China has expanded its trade footprint. Already the world's largest exporter, China is rapidly displacing the U.S. as the largest trade partner for much of the world. Ninety countries traded twice as much with China as with America in 2018. Last year China surpassed the U.S. as the largest recipient of foreign direct investment.

As part of its global campaign, China signed the Regional Comprehensive Economic Partnership last year, a trade agreement that includes U.S. allies such as Japan, South Korea, Australia and New Zealand. It signed an investment agreement with the European Union in December and has announced a customs initiative with Eastern European countries. Beijing is planning new trade agreements with countries in the Middle East and Africa, as well as a regional agreement with Japan and South Korea.

When it comes to trade and investment agreements, China isn't isolated. The U.S. increasingly is. Now we have to make up for lost ground.

Our work must start at home. America's economic prosperity and the effectiveness of our political system and global leadership are rooted in domestic economic strength. We need an economic recovery program that invests in core technologies such as telecommunications and advanced computing, while also attracting the best minds from around the world to foster innovation. And as the economy recovers, we need a plan to defuse our national debt bomb over time.

China isn't going to give America the courtesy of waiting. If the Biden administration wants to compete seriously and fulfill its promise of fashioning a "middle-class foreign

policy,” it will be essential for Mr. Biden to craft a broad trade agenda that ensures U.S. workers aren’t cut off from some of the fastest-growing markets in the world.

First, the Biden administration should review Trump-era unilateral actions on high technology, because they can be harmful and ineffective for American workers and companies when other countries produce comparable products. In those cases, competitors could fill a vacuum if the U.S. stepped away, such as the Europeans supplying more jet engines to China. Unilateral controls make sense only in industries critical to national security and in which the U.S. has a distinct technological advantage. If the world can’t count on the U.S. to be a reliable supplier, we’ll lose market share to our competitors.

The U.S. should also pursue certain bilateral deals. One-on-one negotiations can remove barriers to our most competitive industries, reduce industrial subsidies, and ensure greater protection of intellectual property. Small deals with allies in areas like supply chains and digital finance can be building blocks for a new global trade order.

China will soon become the world’s largest consumer of goods and services. It is in America’s interest to make sure its own workers and companies can take advantage of this reality. We should initiate new bilateral talks that open up China to our export industries, such as environmental goods and precision machinery, without forgetting to strengthen intellectual-property protections and eliminate unfair trade practices.

The U.S. should also revisit regional trade agreements that benefit American workers. In exiting the TPP, America gave China a leg up in Asia and blocked huge avenues for growth for U.S. companies. We should rejoin the TPP, which provides a ready-made vehicle to expand trade in the Asia-Pacific.

Finally, the U.S. must work with allies to make global trade rules more effective. The WTO has an important role to play but its dispute-settlement body is essentially defunct, and its rules are sorely in need of reform. The Biden administration should convene key partners to develop policies that strengthen and modernize rules in areas like digital trade, technology and environmental goods and services.

Winning over trade skeptics on both left and right will require Mr. Biden to explain how helping companies compete in global markets benefits American workers and families. The administration should use the new war chest of the U.S. International Development

Finance Corp. It should also assess and address any major employment shocks from new trade policies.

America's open economy and leadership of the global trade system have long been key competitive advantages. The Biden administration should play to our strengths by advancing a strong, modern trade agenda, returning to the balanced, export-friendly policies that helped make us the envy of the world. America can out-compete China, but first it needs to get back in the game.

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