Free Trade and COVID-19

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Free trade liberalization has consistently proven to be economically beneficial to all countries involved, but resistance to globalization continues to grow despite greater trade capabilities and global connectivity than ever before. The backbone of trade liberalization, international institutions and treaties, are under increasing scrutiny by world actors as well as the various domestic factions within nation-states. Reasons for this disenchantment with globalization include the inequal distribution of trade benefits, the failure of countries to recognize and adapt to the changing nature of the global value chain, and the dissatisfaction of domestic groups whose jobs are being overturned by globalization.

The U.S., who has long been the global leader in trade globalization, faces a difficult but not impossible challenge in better equipping its people and institutions with the necessary tools to not only adjust to the changes and consequences of globalization, but also fully take advantage of the greater and more accessible opportunities that globalization can bring. Now, as the COVID-19 pandemic has disrupted the global economy's supply and value chains in such an unprecedented way, we are witnessing firsthand the extent to which we rely on globalization and the ways that we can continue to facilitate and expand global trade through technology.

Even when countries might have an absolute advantage over the production capabilities of another, they still gain from aligning their economies according to comparative advantage. In a free-trade economy with minimal tariffs and restrictions, the principle of comparative advantage helps countries to produce "goods and services at the lowest possible cost and then distributing them to the people who want them" (Blinder, pg. 126). The Heckscher-Ohlin theory that "a country will export goods that make intensive use of the factors of production in which it is well-endowed" relies on the principle of comparative advantage (FLS, pg. 299). In the case of China, the origin of the coronavirus, their labor-rich economy relies heavily on manufacturing, leading total global manufacturing 28.4% of all global output in 2018 (Richter). On a macro-level, organizing international production according to comparative advantage is universally beneficial to all actors involved. That is why so many countries who are less labor-rich than China rely on Chinese labor.

However, the economic aspects of trade are separate from the domestic politics of trade, which is "infused with battles between winners and losers" (FLS, pg. 308). On the smaller, shorter term domestic scale, benefits are neither evenly distributed nor guaranteed for all parties involved. It is unavoidable that "every move toward freer trade creates both winners and losers" (Blinder, pg. 122).As a result, supporting free trade can be politically risky for countries whose citizens are opposed to freer trade for fear of their own jobs or a lack of understanding as to the true effects of trade. Resistance to trade is especially likely because, often, "gains are widespread but small for each individual, making them almost invisible to most people" but the losses "are concentrated, are highly visible, and hit well-defined groups" (Blinder, pg. 124). According the Stolper-Samuelson theorem, these resistant groups are most likely to belong to or own "the scarce factor of production" because "protection benefits the scarce factor of production" (FLS, pg. 309). Similarly, manufacturing workers in the United States are those who are most vocal in their resistance to the use of Chinese labor. This is consistent with the rationale of comparative advantage, which would dictate that these scarce industries should be relegated to another region where it is more competitive. In a global economy, this often means an industry, and the jobs associated with it, must be moved to another continent or country.

This logic is similar to the Ricardo-Viner model, which also predicts support for free trade, but "unlike in the Stolper-Samuelson approach, people's interests are tightly bound up with the interests of others in their sector of the economy, and the pertinent actors in domestic trade-policy debates are economic sectors, not factors" (FLS, pg. 311). These sector-specific grievances can be magnified and conflated with free trade as a whole, leading to more protectionist trade policies. However, this failure to "distinguish between what trade policy can achieve and what it cannot," (Irwin, pg. 46), contributes to a counterproductive, vicious cycle in which other countries react with their own protectionist trade policies, thereby exacerbating economic problems associated with trade.

The effects of COVID-19, however, have forced countries to shut down and limit trade regardless of their stance on protectionist policies. As trade has resulted in dramatically sudden shortages and delays, people are experiencing firsthand that the drawbacks of a limited global economy far outweigh its limited protections.

One way to combat harmful protectionist policy is the reinforcement of consistent international trading rules. In the absence of properly supported international trade rules, protectionism can be helpful when they "help ensure compliance with international trade rules" (Irwin, pg. 46). The adherence to and integrity of international trade institutions, such as the GATT and WTO, are critical in helping these institutions spread free trade through free trade agreements. Other international institutions such as the IMF and the World Bank attempt to regulate and facilitate international economic policy by implementing standardized rules through the Washington Consensus which encourages free trade as a means to aid development. Free trade agreements, on the smallest scale, involves two countries agreeing to lower or eliminate tariffs within a certain industry when trading between each other, thus promoting trade between the two countries across those industries. Institutions promote international trade because they broker free trade agreements on larger scales, facilitate cooperation and trade, as well as instill confidence in the intentions and actions of other players in the international economy. Organizations such as the GATT and WTO "set standards of behavior that governments are expected to follow," "gather information to assist member states in monitoring and enforcing compliance with their agreements," and provide "an expectation of repeated interaction" thus increasing trustworthiness for all parties involved (FLS, pg. 325). In the case of the GATT, international trust and participation created "a juggernaut of political economy momentum in which nations kept joining" and "tariffs kept falling" (Baldwin, pg. 96). Specifically, the GATT required countries to extend the most favored nation (MFN) status, which involved limited tariffs and favorable trade policy, to all countries who were a part of the GATT. The relevancy of the GATT's principles of nondiscrimination, transparency, reciprocity, flexibility, and consensus decision-making "generated a political economy momentum that drove trade liberalization" (Baldwin, pg. 98).

The past successes of international trade institutions prove that cooperation is attainable and beneficial, but the changes in technology and commerce that have since occurred requires a different approach to maintain that success. Today's WTO rules, despite its attempts at encouraging the trade liberalizations of its predecessor, "were designed for a global economy in which made-here-sold-there goods moved across national borders," but not for "the flows of goods, services, investment, training and know-how" that "have now become part of international commerce" (Baldwin, pg. 96). In other words, trade organizations are largely designed for the economy of the "first unbundling," which saw the "first unbundling of consumption and production on a massive scale" that was made possible by steam power's overthrow of "the dictatorship of distance" around the year 1820 (Baldwin, pg. 77). The fragmentation of production in the first unbundling allowed for countries to industrialize, but didn't facilitate the spread and sharing of ideas, which restricted the ability and the amount of countries that could industrialize and be competitive in the global economy. By contrast, the second unbundling's massive leaps in information and communication technology in the late twentieth and early twenty-first centuries "lowered the cost of coordinating complex processes across great distances" and created "new knowledge flows" that "allowed a small number of developing nations to industrialize with a rapidity entirely out of line with historical experience" (Baldwin, pg. 109).

The implications of globalization's second unbundling have changed the boundaries of international trade and regulation, as well as the flows and impacts of trade on international markets. National boundaries "are no longer the only relevant frontiers when thinking about international competition" as the effects of international competition operate "at a finer degree of resolution on national economies," making their impact "less predictable and more individual" (Baldwin, pg. 176). In this new economic landscape, international institutions will have to adapt in the same way that the GATT and the WTO would foster a world trade system that previously "had virtually no institutional support" (Baldwin, pg. 67). For the moment, however, governments have responded to these unprecedented changes and connections with protectionism and higher trade barriers that "would prove much more disruptive" than they did in the past (Irwin, pg. 50).

Mexico is an example of just how interconnected and codependent the global supply chain has become. Mexico has a major role in the auto industry, despite not having a global Mexican car brand. However, "assembly plants in Mexico help sustain a robust auto-parts industry across North America," benefitting not just the Mexican economy with more jobs and income, but also "gave the United States-based auto industry a competitive edge that was critical to its survival" (Porter, NYT). The "complementary labor forces- cheaper workers in Mexico to perform many basic tasks, with more highly paid and productive engineers and workers in the United States," (Porter, NYT) is critical to not only the US, but also the further development of the Mexican economy.

However, economic improvement and "global value chains are not magical" and "do not solve the hardest development problems" (Baldwin, pg. 278). The economic impacts of COVID have shown more plainly than ever that in order to develop and remain globally competitive, a country still must gather sufficient cooperation for proper social infrastructure, programs, and security for its citizens. The U.S. is a global economic and technological leader, but failure to adapt to the changing behaviors and operations of the global economy would seriously compromise its domestic prosperity and international influence. Prior to the nationwide economic shutdowns, job growth and productivity were soaring thanks to advanced technological capabilities, but "the divide between those succeeding and those struggling is growing, regional disparities are increasing, economic inequality is rising, and public anger is deepening political divisions" (Alden and Taylor-Kale, pg. 2). Perception of and responses to these changes are still rooted in old frameworks that cannot properly address the underlying issues such as access to healthcare and a shortage of technological skills. According to the CFR Task Report, the main task of the government in the face of these problems is to "create better pathways for all Americans to adapt and thrive" by devoting "the necessary resources and attention to meeting international challenges" (Alden and Taylor-Kale, pg. 6).

Government policy must respond to the issue of job displacement while also encouraging the technological innovation that will inevitably lead to the automation of certain jobs and industries. Though “many new opportunities will likely be created to replace those lost” to automation, “American workers face big obstacles in acquiring the education and skills needed to prosper in a more automated work environment” (Alden and Taylor-Kale, pg. 6). Technology “already has caused, and will continue to contribute to, polarization of the workplace” in terms of necessary skill-levels and pay (Alden and Taylor-Kale, pg. 14). The United States must “provide the education, training and resources that Americans need to seize these new opportunities.” As jobs become more volatile and flexible in their required skillsets, Americans will need to change their “notion of education as something largely completed before they enter the workforce” to that of a process of “lifelong learning and periodic retraining” (Alden and Taylor-Kale, pg. vi). The government must provide retraining and education programs with the resources that would allow more citizens to make use of them. In this way, the U.S. can begin “strengthening the link between education and employment processes” (Alden and Taylor-Kale, pg 2).

Policies that “maintain strong growth and full employment are therefore needed to set the table to meet the deeper challenged brought on by rapid technological change” (Alden and Taylor-Kale, pg. 21). These efforts would also target struggling communities by “attracting talented and entrepreneurial individuals, facilitating investment in more diverse industries, and ensuring that native residents have access to workforce development and entrepreneurial tools to optimize their productivity” (Alden and Taylor-Kale, pg. 24).

Another issue affecting American workers is the issue of greater competitiveness in the field of technological innovation, which is “vital to U.S. national security and economic competitiveness” (Alden and Taylor-Kale, pg. 16). One way the U.S. can become more competitive is by investing in “foreign-educated, high-skill workers” through programs like the H1-B visa (Baldwin, pg. 229). Additionally, there should be greater “support for basic research” in the form of policies that “set and meet a target of investing at least 1 percent of GDP in R&D activities” (Alden and Taylor-Kale, pg. 64). Ultimately, “people and skills are perhaps the most important when thinking about a new paradigm for competitiveness policy” (Baldwin, pg. 230). The long-term trend away from a manufacturing economy towards a much more services based American economy emphasizes the truth behind this sentiment. The government must first of all "provide economic security and help workers adapt to changing circumstances" (Baldwin, pg. 237). In doing so, Baldwin argues that the "gains and pains of progress" can be more equitably shared among the citizenry (pg. 237). Thanks to the pandemic, we are seeing that, besides offering better pay and benefits, the flexibility of these jobs ensures greater economic security for both the workers and their industries.

For those employees whose jobs are replaced or automated, "stronger transition assistance" (Alden and Taylor-Kale, pg. 42) is critical to not only individual well-being but also the economy as a whole. One critical policy change includes "providing better-targeted education that leads to better work opportunities, even as the target will continue to shift as new technologies are adopted" (Alden and Taylor-Kale, pg. 26). Many of these job opportunities will be in the service industry or will require "some mixture of soft skills, specific technical skills, some practical on-the-job experience, and a capacity for lifelong learning" (Alden and Taylor-Kale, pg. 26). The U.S. also has to enable its own citizens and skilled immigrants to have greater access to capital and entrepreneurial opportunities. Currently, U.S. entrepreneurship is limited "by lack of access to capital and the growing dominance of a smaller number of large companies" (Alden and Taylor-Kale, pg. 19) which encourages domestic and foreign talent to seek other countries to build their businesses. Increasing mobility, such as through "a major infrastructure package" (Alden and Taylor-Kale, pg. 58) that would include "greater investments in all forms of transit, especially mass transit," would help workers to access better job opportunities as the opportunities become more concentrated.

The U.S. must also lead efforts in supply-chain governance where "a network of rules is needed since global value chains cover a network of nations" (Baldwin, pg. 240). International cooperation is critical in encouraging progress as well as creating more accessible opportunities for citizens. The U.S. "should lay out the welcome mat for foreign investors and underscore its commitment to treating all investors in a fair and equitable manner" (Alden and Taylor-Kale, pg. 57). The government can provide attractive incentives to foreign investors while still accounting for its own wellbeing by negotiating with other governments "to set parameters for investment competition" (Alden and Taylor-Kale, pg. 59). In recent years, especially with the election of Donald Trump, the government has been decidedly unfriendly to foreign investors and workers such as “rolling out a series of measures that will make it increasingly difficult for highly skilled immigrants to work in the United States” (Alden and Taylor-Kale, pg. 18). Reversing these policies might go against their popular rhetoric but would also provide a way for them to increase the United States’ competitiveness and ability to prosper in the face of rapidly changing innovations.

In the age of automation, and now in the age of coronavirus, it makes more sense than ever that the most valuable and stable investment one could make would be in people. Many jobs and industries are susceptible to automation; thus, the government should identify and clearly encourage the necessary and durable skills that people will need to secure better jobs and opportunities. Meanwhile, foreign workers, skills, and investments are not only an inevitable factor for the domestic economy, but they also hold a high potential for connecting both workers and consumers in the U.S. with greater opportunities and innovations. By creating a more favorable environment for these investors and workers, the United States will attract the best of these actors and benefit more directly from the spillover effects of their talents. Working with foreign governments to create international rules and agreements would allow for a clearer and more regulated framework for this international exchange of products, talents, and ideas. Though the circumstances of the U.S. and global economy have changed drastically, the answer to the question of economic prosperity remains to be progress through globalization.

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