

Intelligence MEMOS



From: Jon Johnson
To: Global Affairs Canada
Date: May 5, 2023
Re: **THE BIDEN ADMINISTRATION'S NEW APPROACH TO TRADE**

Significant changes to the US government's approach to international trade were outlined last week in a little-noted Brookings Institution [presentation](#) by White House National Security Advisor Jake Sullivan. These changes will hit all US trading partners, including Canada.

Mr. Sullivan set out four challenges.

First, he maintained that the US industrial base has been hollowed out through tax cutting, privatization, and deregulation. The underlying assumption was that markets always allocate capital efficiently (no matter what guardrails are removed) and that all growth is good. As a result, jobs moved overseas, and essential sectors atrophied.

Second, that free-market approach was based on the belief that economic integration would bring more nations into the rules-based order. While this has occurred with many nations, others, notably China and Russia, are not playing that way.

The third challenge is the urgent need for "a just and efficient clean energy transition" to counter the accelerating climate crisis. Unlike those who believe that we have to choose between economic growth and meeting climate goals, President Biden (Mr. Sullivan reported) sees the clean energy economy as producing jobs,

Finally, Mr. Sullivan cited economic inequality, with gains from trade liberalization failing to reach working people.

The solution is government proactively identifying sectors foundational to economic growth. This strategy "deploys targeted public investments that unlock the power and ingenuity of private markets..." and makes "long-term investments in sectors vital to our national well-being."

It is necessary to move beyond "traditional" trade agreements with their emphasis on reducing trade barriers through tariff reduction, Mr. Sullivan maintained. Modern trade agreements should create resilient supply chains, mobilize investment for clean energy transition and sustainable economic growth. He emphasized labour, citing achievements with Mexico under the CUSMA rapid-response labour mechanism. He also cited an initiative with the EU respecting steel and aluminum to tackle emissions intensity and over-capacity.

The Biden administration is still committed to the values represented by the WTO, he said. However, the trade regime he proposes bears little resemblance to existing trade agreements that endeavour to balance trade liberalization while permitting government to maintain restrictions for purposes such as environmental protection.

Mr. Sullivan also cited reform as including accommodating "legitimate national security interests," ignoring that Article XXI of GATT 1994 (agreed to by the US when the GATT was negotiated in 1947 and was reaffirmed by the US with GATT 1994) already addresses this issue by setting out the circumstances in which a GATT member can take action it considers necessary for the protection of its essential security interests.

Concerns with China were a recurring theme in Mr. Sullivan's remarks, with a need to protect foundational technologies and restricting certain exports to China, but with an emphasis on diversifying and de-risking and not decoupling.

On a positive note, he emphasized that it is neither feasible nor desirable for the US to build everything domestically and he stressed the importance in working with US trading partners. He had kind words for Canada working with the US towards the objective of clean energy supply. He included the EU as a like-minded partner, citing discussions between Mr. Biden and commission President Ursula von der Leyen, and also noted an agreement with Japan co-operating on critical mineral supply chains.

Viewed from that perspective, one can hope that what Mr. Sullivan and the administration have in mind is an overlay of managed trade on top of existing trade rules and agreements – if necessary superseding them to enable collaboration among like-minded partners on supply chains and critical technologies – rather than dismantling them fundamentally. After all, these rules have already evolved significantly toward ensuring a more level playing field regarding certain labour and environmental standards and policies.

Nevertheless, while he argued that this is not about picking winners and losers, it is difficult to see how making investments in specific sectors, such as subsidies for electric cars under the *Inflation Reduction Act*, is not an exercise in picking winners (electric cars) and losers (cars with gasoline engines).

Canada is adapting to the Biden agenda such as through last month's Volkswagen battery plant subsidy agreement and other measures announced or reinforced in the 2023 federal budget.

Whether this is sound policy remains to be seen, but adapting to the policies of Canada's largest trading partner is a sounder policy than resisting them. Also, while a free-market purist may find aspects of the Biden approach objectionable, the administration's approach is preferable to the zero-sum game approach of its predecessor who branded US trading partners as trade cheats.

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