



Rebuilding the Global Economy

A series outlining policy priorities and solutions

MEMORANDUM ON

STATE DEPARTMENT PRIORITIES FOR REBUILDING THE GLOBAL ECONOMY

To: Assistant Secretary of State for Economic and Business Affairs
From: Jeffrey J. Schott
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Background: Rebuilding the global economy will require coordinated initiatives between the United States and its major allies and trading partners in areas such as trade, climate, energy, and global health where the State Department has core responsibilities for the formulation and execution of US policy. In each of these areas, cooperation with key allies in Europe and the Pacific Basin is critical to achieve results that serve US strategic and economic interests. In some important areas, however, the United States also will need to work cooperatively with China, particularly to mitigate climate change and the COVID-19 pandemic.

PRIORITY ACTIONS

PRIORITY 1: Restore US leadership in international economic initiatives on trade, climate, and health

Without US leadership, these transnational challenges will likely fester and lead to conflict. US officials should rejoin the Paris Climate Agreement and the World Health Organization. US policy also should promote an immediate action agenda in the World Trade Organization (WTO) to develop reforms that help ensure access to vaccines and therapeutics essential for fighting the COVID-19 pandemic.

ACTIONABLE TO-DO LIST:

- Lead efforts to reform each institution to advance new initiatives that improve and better coordinate international actions against global warming and the COVID-19 pandemic and ensure that all major countries commit substantial resources to those results over the next five years.
- Advance new international initiatives to promote investment in clean energy resources vital to meeting the carbon abatement commitments of rich and poor countries alike.
- Support WTO reforms that facilitate the distribution of medicines and equipment needed to fight the pandemic.

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PRIORITY 2: Reinforce and rebuild frayed economic relations with key allies in Europe and Asia

US credibility as a reliable partner has been shaken by protectionist measures against its allies for dubious national security reasons, and in response to demands to rebalance and restructure bilateral trade pacts. The United States has also disabled the WTO dispute settlement system and threatened to abandon the WTO altogether.

ACTIONABLE TO-DO LIST:

- Eliminate Section 232 import controls applied to trade with US allies.
- Reengage in talks to reform WTO dispute procedures by the WTO ministerial scheduled for June 2021, which in turn will facilitate negotiations to update and modernize WTO obligations.

PRIORITY 3: Revisit US participation in the comprehensive Trans-Pacific Partnership (TPP) that the Trump administration rejected in its first days

The United States should offer to reengage with its original partners and others in the negotiation of a new economic pact, updating the current Comprehensive and Progressive Agreement for a Trans-Pacific Partnership (CPTPP) that is the successor to the TPP. The United Kingdom is already interested in joining the pact and should be encouraged to do so as a complement to ongoing US-UK trade talks. The European Union is hesitant for fear of undercutting the WTO process but could be convinced to join the United States if it commits to using the results to bolster multilateral negotiations in the WTO. US participation in such talks would close the door to relaxing current CPTPP standards or granting broad exceptions to accommodate Chinese participation, a development that could occur in the absence of US reengagement in the pact.

ACTIONABLE TO-DO LIST:

- Negotiate a revised CPTPP to:
 - » broaden obligations on labor, environment, and digital trade; and
 - » introduce standards for using economic measures for national security reasons.

PRIORITY 4: Support Taiwan by encouraging its economic integration through accession to a revised CPTPP

Taiwan has been aligning many of its laws and regulations to CPTPP requirements and lowering trade barriers to facilitate prospective CPTPP accession. This regional approach to trade is preferable to a bilateral US-Taiwan pact and will provide a bigger boost to economic growth in Taiwan. In the near term, the United States and Taiwan could pursue policies to expand regional trade and investment, drawing on prior bilateral trade facilitation talks.

PRIORITY 5: Renegotiate the Joint Comprehensive Plan of Action (JCPOA)

The United States should negotiate revisions to the JCPOA with Iran and the other P5+1 countries (China, France, Germany, Russia, and the United Kingdom) to update and improve the terms of the 2015 pact constraining Iran's development of weapons of mass destruction. Since the US withdrawal from the pact in May 2018, Iran's program has moved forward despite the continued heavy costs imposed by US sanctions. US allies would support US proposals to improve the disciplines that constrain the pace of Iran's weapons development

with rigorous international monitoring of Iranian facilities. A revised, comprehensive, and enforceable agreement would also lower the risk of military actions in the Persian Gulf that could disrupt the production and trade of energy from this region.

WHAT ISSUES REQUIRE ATTENTION AFTER YEARS OF NEGLECT?

1. Formal dialogue between China and the United States

The United States should reopen a high-level strategic economic dialogue with Chinese leaders to coordinate policies in areas where the two countries need to work together (e.g., response to pandemics, using economic leverage to constrain the nuclear programs of Iran and North Korea, combatting global warming, and developing guidelines to deter commercial cybersecurity). Such discussions also could improve working relationships that have been badly frayed over the past four years and reduce policy misunderstandings that can provoke unintended economic and military confrontations. Importantly, the dialogue could be valuable in managing the aftershocks of the US-China phase one trade deal after it runs its course or requires revision.

2. Escalating tensions between South Korea and Japan

The State Department needs to take a more active role in de-escalating frictions between South Korea and Japan that threaten US economic and security interests in the region. Recognizing that these disputes have deep historical roots, US officials nevertheless should intercede to prevent those political disputes from undercutting intelligence sharing and disrupting vital supply chains. There is no credible rationale for discriminating against the traded goods of allied countries for national security reasons; in this regard, the United States should lead by example and drop its own Section 232 steel restrictions applied to both countries on national security grounds. Longstanding problems should not impair urgently needed bilateral cooperation in the face of common security threats in the region.

3. US involvement in APEC

The United States should participate more actively in the 21-member Asia-Pacific Economic Cooperation (APEC) forum to promote joint trade, investment, and climate initiatives of the member countries as a complement to broader efforts in the WTO, Paris Climate Agreement, and regional integration pacts. Doing so would also better secure Taiwan's integration in regional supply chains and new trade accords. In addition, the United States should give priority to supporting the accession of new APEC members such as Colombia and Costa Rica to deepen their integration in Asia-Pacific supply chains.

4. Coordination with allies on US economic sanctions

The United States should revisit how and when to use economic sanctions to deter or punish abusive foreign practices. At present, State and Treasury have more than 30 active sanctions programs targeting Iran, Russia, North Korea, Cuba, and Venezuela, among others, for abuses of human rights, nuclear proliferation, support for terrorism, military adventurism, and attacks on democratic processes. In many instances, these sanctions punish but do not deter continuing abuses. Too often, US sanctions target individuals or entities that can readily evade or avoid economic pain. Unilateral US measures often simply divert trade and investment to non-US companies, underscoring the need for coordinated policies with allies akin to the near common sanctions regime that forced Iran to roll back its nuclear weapons development in 2015.

ACTIONABLE TO-DO LIST:

- Reopen a high-level strategic economic dialogue with Chinese leaders.
- Help de-escalate destabilizing tensions between South Korea and Japan.
- Use the APEC forum to promote cooperation on regional trade, investment, and climate initiatives.
- Revise how economic sanctions are deployed so that US actions are better coordinated with its allies:
 - » making sanctions more effective and less disruptive to US trade and investment interests at home and abroad; and
 - » ensuring that financial channels remain open to fund humanitarian assistance.