ORDER from CHAOS
Foreign Policy in a Troubled World

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The Trans-Pacific Partnership

The politics of openness and leadership in the Asia-Pacific

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ABOUT THE ORDER FROM CHAOS PROJECT

In the two decades following the end of the Cold War, the world experienced an era characterized by declining war and rising prosperity. The absence of serious geopolitical competition created opportunities for increased interdependence and global cooperation. In recent years, however, several and possibly fundamental challenges to that new order have arisen—the collapse of order and the descent into violence in the Middle East; the Russian challenge to the European security order; and increasing geopolitical tensions in Asia being among the foremost of these. At this pivotal juncture, U.S. leadership is critical, and the task ahead is urgent and complex. The next U.S. president will need to adapt and protect the liberal international order as a means of continuing to provide stability and prosperity; develop a strategy that encourages cooperation not competition among willing powers; and, if necessary, contain or constrain actors seeking to undermine those goals.

In response to these changing global dynamics, the Foreign Policy Program at Brookings has established the Order from Chaos Project. With incisive analysis, new strategies, and innovative policies, the Foreign Policy Program and its scholars have embarked on a two-year project with three core purposes:

- To analyze the dynamics in the international system that are creating stresses, challenges, and a breakdown of order.
- To define U.S. interests in this new era and develop specific strategies for promoting a revitalized rules-based, liberal international order.
- To provide policy recommendations on how to develop the necessary tools of statecraft (military, economic, diplomatic, and social) and how to redesign the architecture of the international order.

The Order from Chaos Project strives to engage and influence the policy debate as the United States moves toward the 2016 election and as the next president takes office.

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The Trans-Pacific Partnership

The politics of openness and leadership in the Asia-Pacific

MIREYA SOLIS

Executive Summary[1]

Trade policy, and the Trans-Pacific Partnership (TPP) in particular, is vitally connected to the national interests of prosperity, security, and governance. With novel rules on the digital economy, high tariff elimination targets, and disciplines to address behind-the-border protectionism, the TPP creates opportunities for American sectors that enjoy competitive strength—services, advanced manufacturing, agriculture—to expand their reach in overseas markets. Projected annual income gains from this trade deal range between \$57 billion and \$131 billion by 2032, compared to a baseline scenario. In sharp contrast to the experience of import competition with China, the TPP will not impose large adjustment costs in terms of employment and wages, generating instead a net (albeit small) positive effect on job creation and wage rates. However, the individual costs for displaced employees are very high, and the contours of a new pro-adjustment safety net that enables workers to navigate difficult economic transitions (brought about by technological change or trade) are highlighted below.

On the geopolitical front, the TPP enhances American influence in Asia and the world by reassuring allies and rivals that the United States is a multi-dimensional power fully anchored to the region and capable of supplying novel institutions for regional cooperation. And it represents a smart strategy vis-à-vis China's regional and global leadership bid since it is both proactive (building a new economic architecture) and inclusive

[1]The analysis and policy prescriptions offered here are developed in more depth in my forthcoming book *Dilemmas of a Trading Nation: The United States and Japan in the Trans-Pacific Economic Order*.

(leaving the door open for a potential Chinese accession in the future). The TPP aims to close the governance gap in the trading regime caused by the inability of the World Trade Organization (WTO) to update the multilateral rules on trade and investment for the past 20 years. The TPP's assets to advance the dissemination of new rules are not only its reach (comprising 40 percent of world GDP), but also its diversity: bringing together nations at very different levels of development.

The prospects for congressional ratification of the TPP are clouded by the rise of an anti-trade movement in the U.S. political landscape. The conventional case for trade (focusing on the gains to be had, while downplaying the costs of transitional unemployment) does not resonate in a context of marked increases in income inequality or with still-fresh memories of significant job losses in the aftermath of the global financial crisis. We need to address the fears around liberalization, not only by driving home the point that technological change is the largest force behind the loss of U.S. manufacturing jobs, but also by developing a pro-adjustment safety net for all workers. Its core objectives should be to close the growing skill deficit in the workforce and to ensure labor mobility across geographical boundaries, across occupations, and across the skill spectrum. Concrete initiatives to pursue include employment incentives (such as an expansion of the Earned Income Tax Credit for lower income workers and a universal wage insurance program), plus doubling down on skill acquisition and upgrading through dedicated funding in community colleges for training programs and development of company apprenticeships, to name a few examples.

The choice ahead for us is not whether to turn inward, rather it is whether we can overcome decades of underinvesting in our most precious asset: human capital.

A Turning Point

In the midst of a most extraordinary presidential race, we are confronted with a defining issue for the United States: Are we to turn inward by questioning the economic benefits of trade, reneging on a major diplomatic success in updating multilateral economic disciplines, and failing to renew a rules-based order at a time of a profound power shift in Asia? And more importantly, is the abdication of international leadership good for the American worker?

The fate of the Trans-Pacific Partnership (a 12-nation trade pact covering close to 40 percent of world GDP) will weigh heavily in the march toward or away from economic and political isolationism. In this presidential campaign, both candidates are on record opposing the TPP, although Republican nominee Donald Trump has gone farther, seeking to undo American trading relations and American alliances. Democratic nominee Hillary Clinton supports free trade and our security partnerships, but her rejection of the TPP on the campaign trail risks weakening our economic partnerships and undercuts our international influence. The trading system is besieged by a growing governance deficit and our Asia policy will be shaped by our (in)ability to update the trade architecture to leverage growth and induce positive economic change in China. Closing the leadership gap is the only way forward on both fronts.

This is a critical juncture to reaffirm the American commitment to a proactive trade policy that delivers prosperity, buttresses our national security, and supplies needed international rules. And the TPP is the linchpin of such effort. The purpose of this policy brief is twofold: first, to clarify the connection of trade policy—and the TPP in particular—to the national interest in the areas or prosperity, security, and governance; second, to put forth policy prescriptions to recreate a domestic consensus in favor of economic internationalism. This is the lasting lesson of a most disconcerting political season: The path to American leadership in Asia and beyond starts by cultivating the politics of openness at home.

Trade and the National Interest

Prosperity

Trade's main contribution to national wealth comes from enhancing competitiveness. Building on the forces of specialization and innovation, open markets allow not only for the most efficient use of productive resources, they foster competition to dismantle monopolies and inflated prices, and they help disseminate new ideas and technologies that propel future growth.

"Nothing focuses the mind on the value of free trade more than imagining its absence."

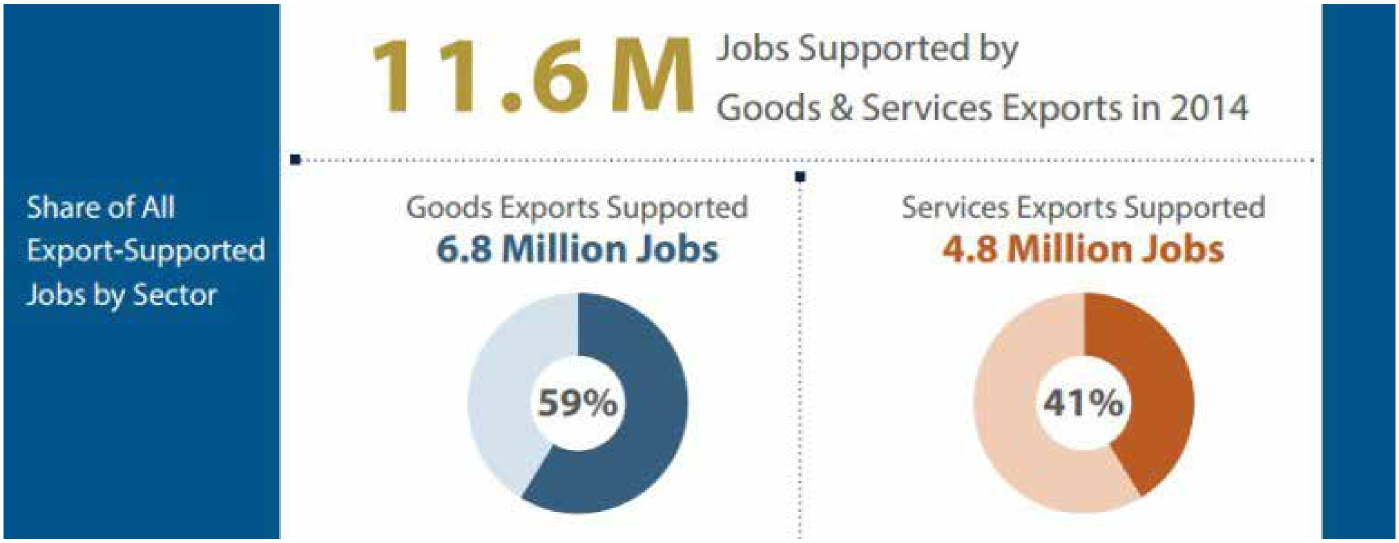
At the most fundamental level, an open trade regime allows nations to escape the boundaries of the internal market to service global demand. The empirical record across centuries and regions is unequivocal: Nations that purposively avail themselves of the international marketplace outperform those whose sights remain constrained by national boundaries.[2]

The benefits of trade liberalization go beyond enhancing the productive potential of an economy. One of the major contributions of free trade is the reduction in the cost of living for consumers by making available goods and services at a lower cost. And this price reduction in everyday necessities is particularly important for consumers with the fewest resources. In this year's charged debate on trade policy on the American political stage, we have seldom heard about the pro-poor bias in *every* country of tariff elimination. Nothing focuses the mind on the value of free trade more than imagining its absence. Thus, a modeling exercise shows that a move towards autarky in the world would erode the purchasing power of consumers across all income brackets, but it would bring an outsize loss (over 60 percent) for consumers at the bottom of the distribution ladder.[3]

International trade, like all forces of economic change—most notably technological revolutions—both creates and destroys jobs. Sectors that enjoy international competitiveness will thrive, creating job opportunities, but those unable to meet competition from abroad will contract and cut back on employment. Both sides of the coin matter in assessing trade's impact. The job benefits of international trade for the U.S. economy are substantial. In 2014, according to Department of Commerce statistics, exports sustained 11.6 million jobs.[4] This is in fact a conservative estimate because it does not take into account the job creation effects of imports (for example, the sourcing of foreign components that make user industries more competitive), and of foreign direct investments in the United States that result from operating an open and competitive economy. But the figure suffices to show that export activity benefits working Americans, especially considering that wages in the export sector are 18 percent higher on average.

[2] World Economic Forum, "The Case for Trade and Competitiveness," September 2015, http://www3.weforum.org/docs/WEF_GAC_Competitiveness_2105.pdf.
[3] Pablo D. Fajgelbaum and Amit K. Khandelwal, "Measuring the Unequal Gains from Trade," *Quarterly Journal of Economics* 131, no. 3 (2016): 1113-1180, doi: 10.1093/qje/qjw013.
[4] "Employment and Trade," International Trade Administration, Department of Commerce, last modified September 22, 2016, http://www.trade.gov/mas/ian/employment/.

Jobs supported by goods and services exports in 2014:



Source: "Jobs Supported by Exports 2014: Product," International Trade Commission, U.S. Department of Commerce, July 2016, http://www.trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_005507.pdf.

But trade liberalization also destroys jobs, and the costs for affected workers are very steep. Trade competition with China (which is not a signatory to a trade agreement with the United States) is estimated by some to have cost 985,000 manufacturing jobs between 1999 and 2011, at a time when U.S. manufacturing employment fell by 5.8 million jobs. And contrary to the notion of fluid labor markets, displaced American workers have not easily bounced back, as they have been saddled by prolonged spells of unemployment or left the workforce entirely, and when reemployed they have frequently settled for lower pay.[5]

No finding has framed more the current debate on the merits of trade for the American worker than the "China trade shock" thesis.[6] These findings point to the need to incentivize China to reform its trading and investment

[5] David H. Autor, David Dorn, and Gordon H. Hanson, "The China Shock: Learning from Labor Market Adjustment to Large Changes in Trade," NBER Working Paper No. 21906, National Bureau of Economic Research, Cambridge, MA, January 2016, http://www.nber.org/papers/w21906.

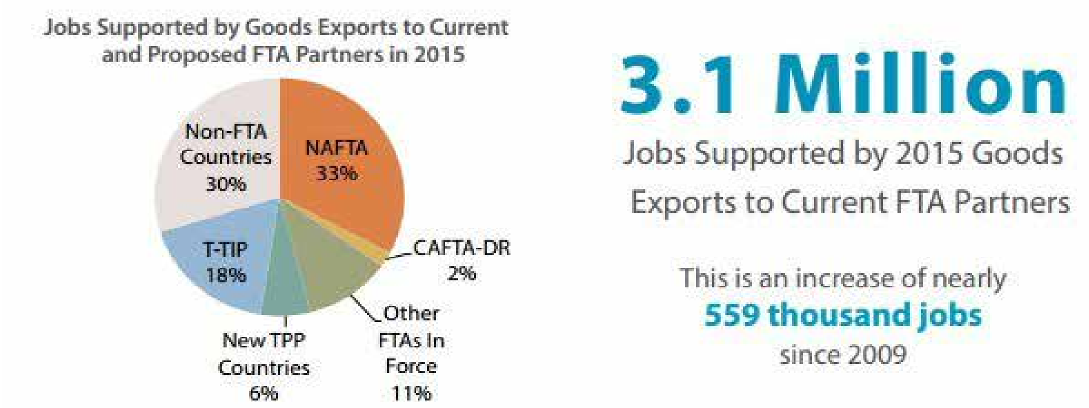
[6] Not every economist agrees that imports from China have had such ravaging effects on U.S. manufacturing jobs. Martin Baily and Barry Bosworth note that structural changes in the U.S. economy resulted in a contraction of the share of manufacturing employment over the span of decades. This long-term trend combined in the 2000s with sluggish job creation to produce an absolute decline in factory jobs. Martin Baily and Barry Bosworth, "U.S. Manufacturing: Understanding its Past and Potential Future," *Journal of Economic Perspectives* 28, no. 1 (Winter 2014): 3-26.

practices, and the TPP in fact can play an important role to this end, as David Dollar points out.[7] Moreover, they have cast the spotlight on what is our biggest policy mistake: to leave unabated the distributional costs of economic change writ large—as a result of both technological change and trade liberalization. The call for action for the next administration must be a comprehensive strategy to invest in human capital and ensure labor mobility. These measures will address the legitimate concerns of workers who remain tied to the old economy and suffer the brunt of adjustment costs (which I discuss in the last section).

However, the wrong—and dangerous—conclusion that anti-trade critics have drawn is that by trading with China we have surrendered our economic strength and self-imposed de-industrialization, and that protectionism will bring manual jobs back. The predominant cause for the loss of manufacturing employment has been technological change (85 percent), not international trade.[8] Automation has transformed the American factory, rendering millions of low-skilled jobs redundant, and fast-spreading technologies like robotics and 3-D printing will exacerbate this trend. That technology is the primary driver is corroborated by the fact that despite the steep decline in factory jobs, manufacturing leads the U.S. economy in productivity rates and industrial output has been growing. Simply put, we are producing more with fewer people. Taking stock of the contributions of trade with China to the American economy must certainly weigh in the job loss of rising import penetration, but must also factor in the jobs supported through American exports of goods and services to China, and the access by millions of consumers to lower priced goods.[9] Trying to block economic change with protectionist measures cannot override the larger forces of automation and the transition to a digital economy, but will cost millions of Americans their means of livelihood. A recent study by the Peterson Institute for International Economics estimates that a full-blown trade war (triggered by punitive tariffs on China and Mexico) would bring back a recession and result in the loss of 4.8 million jobs at its trough.[10] Once again,

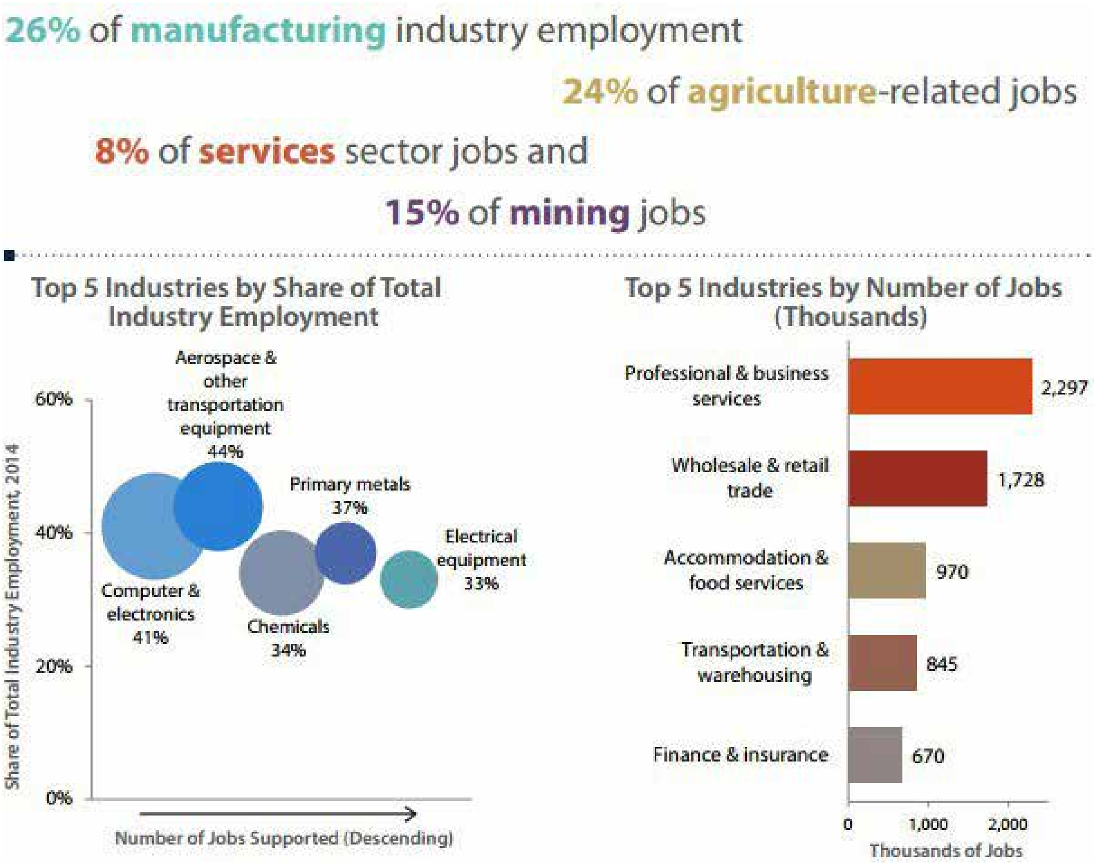
[7] David Dollar, "The future of U.S.-China trade ties," policy brief, Election 2016 and America's Future Series, Brookings Institution, Washington, DC, October 2016.
[8] This figure comes from a study by the Center for Business and Economic Research at Ball State University cited in Douglas A. Irwin, "The Truth About Trade," *Foreign Affairs* 95, no. 4 (July/August 2016).
[9] The Department of Commerce estimates that in 2014 951 thousand jobs were supported by exports of goods and services to China.
[10] Marcus Noland et al., "Assessing Trade Agendas in the U.S. Presidential Campaign," PIIE Briefing 16-6, Peterson Institute for International Economics, Washington, DC, September 2016, https://piie.com/publications/piie-briefings/assessing-trade-agendas-us-presidential-campaign.

Jobs supported by goods exports to current and proposed FTA partners in 2015:



Source: "Jobs Supported by Export Destination, 2015," International Trade Commission, U.S. Department of Commerce, September 2016, http://www.trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_005509.pdf.

Jobs supported by exports in 2014, Industry:



Source: "Jobs Supported by Exports 2014: Product," International Trade Commission, U.S. Department of Commerce, July 2016, http://www.trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_005507.pdf.

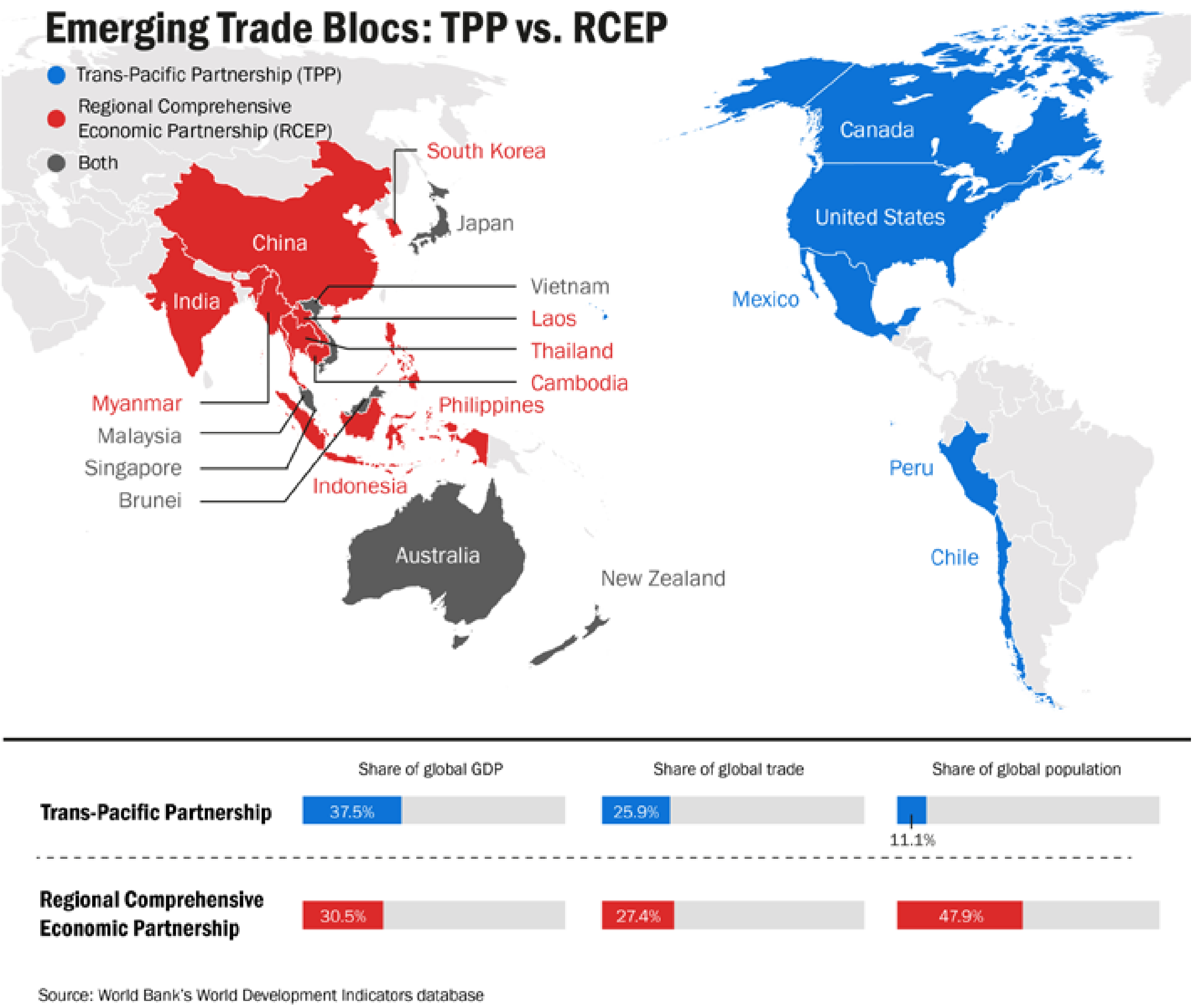
"We will be hard-pressed to find another off-budget economic initiative that not only has positive macro effects on the economy, but geopolitical impact in a theater where 21st century power contests are being played out."

the value of free trade becomes most tangible when we dare imagine what it means to sabotage it.

The TPP represents a different balance of benefits and costs than trade with China in the past decade, with sizable economic gains from trading with a group of like-minded countries adopting cutting-edge rules, smaller adjustment costs (the largest market the TPP opens for the United States is a high-wage economy, Japan), and with important geopolitical ramifications. With novel rules on the digital economy, high tariff elimination targets, and disciplines to address behind-the-border protectionism, the TPP creates opportunities for American sectors that enjoy competitive strength—services, advanced manufacturing, agriculture—to expand their reach in overseas markets. Regarding the TPP's impact on employment and wages, the International Trade Commission (ITC) estimates a *net* positive (albeit small) effect on job creation (128,000 jobs) and an increase in real wage rates (0.19 percent) by 2032. And every econometric study that can measure the impact of trade liberalization on economic welfare has answered "yes" to the most fundamental question: Are we better off with the enactment of the TPP? Annual increases in real income for Americans (that is an expansion in their purchasing power) are estimated to range from $57 billion to $131 billion by 2032 (compared to the baseline scenario without the TPP).[11] Because these income gains are small relative to the vast size of the American economy (0.2 percent to 0.5 percent of U.S. GDP, respectively), some have argued the TPP is inconsequential and counsel against ratifying the agreement. But this is an odd position. Why are these economic gains "expendable" as we aim to consolidate the post-financial crisis recovery and when the world is stuck in a low-growth environment?

Moreover, the critics are wrong in dismissing the economic potential of the TPP. The fact that a single policy tool (a trade deal among a dozen countries, only five of which do not already have a trade agreement with the United States) can register on the GDP needle of a continental economy like the United States (in which exports represent only 13 percent of GDP) is remarkable. We will be hard-pressed to find another off-budget

[11] U.S. International Trade Commission, "Trans-Pacific Partnership Agreement: Likely Impact on the U.S. Economy and Specific Industry Sectors," publication no. 4607, May 2016, https://www.usitc.gov/publications/332/pub4607.pdf; Peter Petri and Michael Plummer, "Economic Effects of the Trans-Pacific Partnership: Distributional Impact," Vox (Centre for Economic Policy Research's Policy Portal), April 30, 2016, http://voxeu.org/article/economics-tpp-winners-and-losers.



economic initiative that not only has positive macro effects on the economy, but geopolitical impact in a theater where 21st century power contests are being played out.

Security

As a region characterized both by its unparalleled economic dynamism and the rise of an emerging power with global aspirations, Asia is an area of vital security interests for the United States. The strategic goals of U.S. trade diplomacy in the region are in fact straightforward:

- to partake in the growth dividend of Asia-Pacific integration as a means of national strengthening, but also to reap the influence benefits that come from deepening links of shared prosperity with common view partners;
- to update and disseminate rules that shore up a liberal trading order that reflects both our economic and security interests, but also our values;
- to strengthen reforming elites who want to use international commitments to gain leverage in advancing economic reforms towards more open economies;
- to reassure allies and rivals that the United States is a multi-dimensional power, fully anchored to the region and capable of supplying novel institutions for regional cooperation; and
- to develop a smart strategy vis-à-vis China's regional and global leadership bid. In sharp contrast to the botched initial response to China's Asian Infrastructure Investment Bank (AIIB) initiative—both defensive and ineffectual—the United States can use trade policy in a proactive (covering governance gaps) and inclusive way (contemplating a future Chinese accession). The TPP provides the kind of leadership that our partners in Asia have repeatedly told us they want. It is not about forcing them to choose sides; rather, it is about strengthening their hand (through a partnership with the United States) to deal more effectively with China's growing projection of influence.

The United States can realistically meet these goals through the TPP, but if it scuttles the trade deal there is *no other* diplomatic instrument that can—in one fell swoop—advance these vital security interests. More poignantly, if clout is defined by the existence of alternatives, the United States will be at a clear disadvantage. Both our partners and competitors have a Plan B if the TPP never materializes. And these are not lofty blueprints for a distant future; they are ongoing trade negotiations to establish in the near term a preferential trade zone among the largest Northeast Asian economies, and a 16-nation East Asian trade grouping: the Regional Comprehensive Economic Partnership (RCEP) led by China.[12]

[12] A more damaging plan B for the United States would unfold if the other TPP countries decided, at the end of the two years mandated for domestic ratification procedures, to change the enactment rules so that a positive vote from the U.S. Congress would not be the TPP's crucible, or if they just opted for relaunching the TPP sans the U.S.

Let's not forget that the United States joined the TPP negotiations to avoid marginalization from the process of Asian regionalism as countries there drafted plans for trade integration that did not include us. Now, we seem poised to deliver that precise outcome ourselves. The security challenge is not that China is flexing its muscle to establish an alternative trading regime, it is that we are handing China the leadership baton. Think about the reach and meaning of RCEP in alternative scenarios where the TPP is enacted or not: In the former, RCEP is a conventional trade agreement—thin on rules, shielding most sensitive sectors; in the latter, RCEP becomes the regional standard of economic integration and elevates China as the focal point of economic diplomacy—with a novel institutional portfolio to cover a wide array of policy arenas from trade to infrastructure finance. The intervening variable is vanishing U.S. leadership.

We are our greatest security challenge. It is a steep downgrade when a major power goes from architect to spoiler. Because our domestic dysfunction could undo our most effective tool of economic and regional diplomacy, there will be fewer alternatives to regain leadership. We will be bogged down by a large credibility deficit, and this will increase the chances of coming short in a test of great power status: the supply of governance.

Governance

One of the least understood aspects in the public debate on trade policy is why trade negotiations are no longer solely—or even principally—about tariff elimination, but about rules on policy arenas behind the border. Quite simply, the transformation in the nature of trade negotiations is driven by the reorganization of international production activities, and the consequent change in patterns of foreign trade. Traditionally, trade was driven by the exchange of finished goods—and national statistics on trade still reflect that outdated pattern. But the dissemination of global value chains (where production is fragmented and dispersed across national boundaries) is such that the exchange of components, machinery, and services today represents more than two-thirds of the value of international trade. Two main policy implications should be readily apparent. One, imports are ever more essential to sustain export activities—meaning that the cost of protectionism has gone up. And two, leveraging the growth potential of the global value chain calls for international trade disciplines that match the

"A more compelling case for trade will address, not dismiss, the fears around liberalization."

reality of international trade operations. But we have yet to codify them at the multilateral level.

Trade negotiations have become infinitely more complex and challenging. To the traditional concern with market access (which remains a central objective) we need to add the new market presence agenda. In other words, deep integration disciplines provide commitments on the liberalization and protection of foreign direct investment, on the internationalization of services and free cross-border data movements, on the protection of intellectual property, and on competition policy and rule of law which facilitate the operation of the global factory.[13]

The deeper reach of trade commitments has come at a time of severe dysfunction in the WTO as a negotiation forum. In the past, the General Agreement on Tariffs and Trade (GATT) set in motion a steady flow of tariff reductions through periodic rounds of multilateral negotiation. The establishment of its successor organization—the WTO—brought about an expanded mandate by incorporating the laggards of liberalization (agriculture and textiles) but also making forays into some disciplines related to investment and intellectual property. But this progress largely came to a standstill, as the WTO has been unable to conclude a multilateral round with member-wide liberalization commitments since its creation. Reaching consensus among its 164 members—each with the ability to wield a veto—has proven to be an insurmountable obstacle.

The Trans-Pacific Partnership aims to close this governance gap. It places a different kind of bet: that by shifting the locus of negotiation to a cluster of countries willing to undertake far-reaching liberalization (the average tariff elimination for members is 99 percent) and to codify novel trade and investment rules, the momentum for trade liberalization can be sustained. And this bet could not be more timely given the marked slowdown in international trade growth in the years after the global financial crisis. But how can a 12-nation trading group aim so high? First, the TPP relies on the clout of its sheer size—pooling a large share of the world economy, it creates a powerful incentive for others to emulate its standards. But even more compelling is its

[13] Richard Baldwin, "21st Century Regionalism: Filling the gap between 21st century trade and 20th century trade," CEPR Policy Insight No. 56, Centre for Economic Policy Research, London, UK, May 24, 2011, http://cepr.org/active/publications/policy_insights/viewpi.php?pino=56.

diversity: It brings together nations at very different levels of development and with contrasting trajectories of national development, creating hope that these disciplines can disseminate farther. And lastly, the TPP defies the conventional wisdom of preferential trade deals (which strive to remain an exclusive grouping) by explicitly welcoming future accessions. To the extent that other countries join the TPP, that concurrent trade negotiations feel the competitive pinch to aim for more ambitious commitments, and that the conclusion of the first mega trade deal helps reenergize plurilateral negotiations at the WTO, we can expect cascading effects to improve trade governance.

Trade policy is vitally connected to core national interests of enhancing economic competitiveness, anchoring our leadership role in Asia, and renewing a liberal economic order. But there is only one possible step at this juncture to leverage our trade diplomacy in the pursuit of these objectives: ratification of the Trans-Pacific Partnership. Regardless of the timing of the congressional vote (but the sooner the better), the TPP should help spur a much-needed domestic transformation—one that puts front and center a better distribution of economic opportunity. The cohesion of the social fabric, the quality of our domestic politics, and our reassertion of international leadership all hinge on the progress we make on this fundamental task. The TPP should be used as a lever to cultivate the politics of openness. To that effect, two concrete policy prescriptions deserve utmost priority.

Policy Prescriptions for a Domestic Transformation that Renews International Leadership

1. Make the case for trade differently, and act accordingly

The conventional arguments to support trade liberalization are all correct, yet they are largely ineffective in turning the tide of support in favor of economic internationalism. Traditionally, the case for trade has been made by focusing on the gains to be had, while downplaying the fears (either because the adjustment costs are deemed relatively small or because we have assistance programs for trade-impacted workers). But these arguments do not resonate in a context of marked increases in income inequality or with still-fresh memories of significant job losses when the economy was battered by the global financial crisis.

A more compelling case for trade will address, not dismiss, the fears around liberalization. It will build from the all-important insight that people who have not benefitted from economic change will naturally oppose it. And it will make the case for liberalization with a laser focus on the issue that the public cares most about: jobs. This means making a U-turn from the classic economists' position: that jobs are a side issue in assessing the merits of trade because in the long run, the economy will return to full employment; and that the gains from trade are supple enough to compensate losers. To correct this disconnect, we must recognize that people care first about the short-term, because as John Maynard Keynes put it, "in the long run we are all dead." It is how we navigate the transition to a "new normal" that is critical. And it is not enough to know that the winners have ample resources to compensate the losers, what matters is that they *actually do so*. In other words, we must have policies to ensure that workers experiencing the brunt of the transition are not left behind.

It is possible to focus on jobs and make a robust case for trade, to underscore that we have a more fundamental problem at hand with the growing skills deficit in the workforce that cannot be solved by blaming liberalization,[14] and to grasp that a protectionist turn will not bring old-economy jobs back, but will kill jobs of today and tomorrow. By looking at the jobs figures, we can:

- put the impact of trade on jobs in perspective: the mammoth size of the U.S. labor market (121 million full-time jobs in 2015) and its active churning (5.2 million hires and 4.9 million separations in a *single* month—July 2016);[15]
- understand the differential impact of technological change and trade with China on the loss of manufacturing jobs in the course of a decade: 4.815 million vs. 985,000, respectively;
- realize the value of export activity to working Americans: 11.6 million jobs in the export sector in 2014 (951,000 jobs in exports to China);

[14] To put to rest the argument that the only impact of imports is to kill jobs and the trade deficit causes joblessness, suffices to point out, as Douglas Irwin does, that a larger trade deficit is positively correlated with job creation because they both respond to the business cycle. When the economy is booming we import more and we hire more people. See Douglas Irwin, "Truth About Trade," p. 86.

[15] Figures for the first and last bullet point come from the U.S. Bureau of Labor Statistics.

- grasp the job casualties of protectionism: 4.8 million jobs in 2019 in a full trade war scenario; and
- realize the enormous wasted opportunities of a growing skill mismatch and labor market rigidities: 5.9 million unfilled job openings in July 2016.

2. Transform U.S. labor markets from flexibility to mobility

Just as rehashing our arguments on the gains from trade will accomplish little, so will doubling down on existing Trade Adjustment Assistance (TAA) programs. Currently, those only cover a section of American workers, have not effectively tackled the problem of wage erosion, have come short in providing effective training, and cannot tend to the larger needs of skill acquisition for the American workforce.

Hence, we need a new approach: a comprehensive and pro-adjustment safety net that allows all displaced workers to navigate difficult economic transitions brought about by technological change, trade liberalization, and/or macroeconomic shocks. Job dislocation imposes a heavy toll on affected workers. The challenge for laid-off workers in finding new employment at a comparable wage is steep, and it may compromise their lifelong earnings potential. A skill mismatch may also prevent the redundant workers from transitioning to new economic sectors with growth potential. And job competition among redundant workers will be particularly steep during recessions triggering high unemployment rates, mass layoffs in a specific industry, and in situations where limited geographical mobility hinders relocation from depressed communities with dire employment prospects.

American labor markets are well known for their flexibility (ease of firing and hiring workers), but this trait alone is not sufficient to generate smooth adjustment. Instead, policies that target labor mobility are required to enable workers to relocate geographically and to enter new occupations and fields. The foundation of this mobility will be skill acquisition and upgrading. Therefore, a relaunched safety net must embrace and invest in active labor market policies that seek to increase the employability of workers through training, job-search assistance, direct job creation, and employment incentives. The United States has come woefully short on these critical tasks: It is the industrialized country that spends the least on active labor market policies as a share of GDP. Some of the concrete initiatives to pursue are:

- an expansion of the Earned Income Tax Credit for lower income workers by loosening eligibility criteria;
- an extension of the wage insurance program to cover all workers (not just people over 50 enrolled in TAA), since this income supplement tackles the pervasive problem of wage erosion;
- dedicated funding in our community colleges to allow individuals to acquire or retool their skills to become more employable;
- developing apprenticeships that provide company training and a potential path to future employment; and
- rebuilding our deteriorating infrastructure would also create job opportunities for workers unlikely to shift occupations through new skills.

Sure enough all these programs cost money, but they should be seen as investments, rather than expenses. And they are a better option than doubling down on programs that for many workers represent a dead-end as they opt for permanent disability for lack of alternatives.

There is wide skepticism that a Washington in gridlock can deliver on this transformative agenda. Even if only limited progress is made, we are still better off enacting the TPP: We will promote jobs in the sectors where we enjoy comparative advantage; we will avail ourselves of the toughest labor standards to date to ensure fair competition; and we will put pressure on nonmember countries to reform their state capitalism trading practices. But failure to overcome the decades of underinvestment in our human capital will leave us unprepared for the full-blown consequences of a fourth industrial revolution driven by low-end labor saving technologies such as automation, cloud computing, and the internet of things.

We can let the growing anti-trade movement define us (foregoing economic opportunities and diminishing our international clout), or we can use the 2016 presidential election as a teaching moment to correct course. Laying the domestic foundations for a nimble workforce and a secure middle class, and cementing a strategic Trans-Pacific Partnership should be the future to choose.

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