
Mitigating Risk in Global Trade in the Era of Populism

AN INTERVIEW WITH AMBASSADOR PETER ALLGEIER

FLETCHER FORUM: *You've come to Fletcher to participate in the Fletcher Political Risk Conference, "Flipping the Script: Populism and the Shifting Risk Landscape." How do you view populism, its transition into politics and governance, and the risks it brings to the international system?*

AMBASSADOR ALLGEIER: There has been a discussion about what the definition of populism is. I think it is a reaction against globalization, and that means different things for different people. It is a concern about immigration, either because of perceptions of jobs being taken away, or terrorism. A lot of it is a reaction from people who perceive negative effects from trade and trade agreements, and people who feel that our country isn't the way it was in the past when everyone had good jobs and the United States was the manufacturing center of the world. The world doesn't seem to be operating the way we understood it to be operating for our success in the past, so there's a reaction against that. There are also certain cultural aspects of it. It's a conservative feeling—certain values we had and ways of doing things in the past don't seem to be accepted anymore or are being

Ambassador Peter Allgeier currently serves as President of Nauset Global, LLC, an international trade and investment consulting firm advising U.S. and foreign businesses. He previously served as Deputy U.S. Trade Representative (2001-2009) and U.S. Ambassador to the World Trade Organization (WTO). Before his appointment as Deputy USTR in 2001, Ambassador Allgeier served in a series of senior positions: Assistant USTR for Asia and the Pacific; Assistant USTR for Europe and the Mediterranean; and Associate U.S. Trade Representative for the Western Hemisphere. He is the recipient of the Distinguished Service Award from the Washington International Trade Association (WITA) and the Woodrow Wilson Distinguished Alumnus Award from Johns Hopkins University School of Advanced International Studies (SAIS). In 1988, President Reagan presented him with the Presidential Distinguished Rank Award, which is the highest performance honor bestowed on career federal officials.

challenged. It's really kind of a harkening back to what people perceive was, for them, a better life, economically and culturally.

FLETCHER FORUM: *How would you contextualize these shifts based on your decades of experience with the U.S. Trade Representative? Were they at all foreseeable?*

ALLGEIER: I don't know if they were foreseeable. Certainly, within the trade community, there was a feeling that through time, we were adapting to changing economies and situations for the United States. For example, if you look at the way trade agreements have evolved, they started off under the General Agreement on Tariffs and Trade (GATT) as tariff and quota agreements. The entry of NAFTA, the Uruguay Round, and various other free trade agreements started complicating things. For instance, all multi-lateral trade agreements incorporated protections for intellectual property and openings for services. Within protection of intellectual property there were concerns around access to medicines which were addressed by incorporating provisions to ensure that poor countries could have access to medicines notwithstanding very tight rules on patents. These agreements also mandated procedures to ensure environmental protection, protection of labor rights, and sought transparency and fairness in government regulatory actions. There was a feeling that we were always sort of catching up with reality, but that we were also shaping reality. There was a recognition that people were being dislocated due to the impact of trade agreements and there was thus a need for trade adjustment assistance programs.

The criticism of trade was growing, particularly on the left, alleging that we were not doing enough to protect the environment or uphold workers' rights. What was surprising, however, was a vociferous attack from the right. It was certainly not predicted, at least within the trade community.

FLETCHER FORUM: *At the conference, you said two things I found particularly interesting. One was that the World Trade Organization (WTO) is extremely concerned by the apparent direction of U.S. trade policy under the current administration, and secondly that the only thing the WTO fears more than the United States taking the lead on something is the United States not taking the lead on something. Could you unpack those two comments for us? What's most concerning about U.S. trade policy from the international / WTO perspective?*

ALLGEIER: They are connected. If you look back at the way the WTO and the multilateral trading system has evolved over the last decades, the United States has been the lead in terms of moving it forward. For example, the movement for incorporating services and intellectual property into the WTO was overwhelmingly driven by the United States. Furthermore, during the Uruguay Round, the United States played a central role in implementing a more rigorous dispute settlement procedure in response to dissatisfaction with the dispute settlement process of the GATT.

More recently, the Doha Round (which is currently stalled) saw heavy involvement of the United States and a small group of trade ministers from a few other countries. People like Bob Zoellick on the U.S. side, Pascal Lamy in the E.U., Alec Erwin from South Africa, and George Yeo from Singapore had a strong vision and a lot of political will to move the trading system forward. But still it was the U.S. that was the prime mover. Even when it comes to newer issues such as cross-border data flows and the role that plays in trade, the U.S. has been out there bringing attention to them. Countries haven't always liked the U.S. pushing them—for instance in areas like intellectual property where developing countries have pushed back. But overall there is a recognition that the United States has largely been open, fair, and transparent when it comes to rules on trade. If the United States pulls back, countries may encounter a loss of direction on the trade front. China, for instance, would be happy to step in, and they have a very different view of things.

There's an interesting schizophrenia within members of the WTO, even among developing countries, about China. On the one hand, a lot of the developing countries feel like,
 "Okay, good, we finally have someone on our side who is powerful," but they also recognize that China doesn't play the same way that the United States plays. There is also a huge concern regarding the legitimacy of the WTO dispute settlement process if the United States decides that it will not pay attention to rulings that run against it. For a small country trying to limit unilateralism by the United States, that's really the only recourse. They can't really retaliate in any other way.

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FLETCHER FORUM: *How do the clients you serve in your current role as president of Nauset Global view populism and political risks? Are there risks that you perceive they consistently over or underestimate?*

ALLGEIER: I don't think at this point they are underestimating any risks. People are frantic about what is going to happen.

FLETCHER FORUM: *In that case, how do you help them focus?*

ALLGEIER: Clients come to us to get a realistic assessment of the trade scenario, its effect on their investments in different countries, and what can we do to mitigate that. What are some strategies for reducing the risks? It involves analyzing all the possible steps that can be taken, in great detail—this includes understanding legally what the administration can do, the constraints that they face, the strength of those constraints, and whether they can be ignored. It also involves understanding the economic constraints, which is harder because you don't know whether people are going to make decisions based on what the economic consequences will be. For example, it is not possible to just dismantle supply chains without doing enormous damage to the economy and to workers. These are the kinds of exercises we engage with clients on.

FLETCHER FORUM: *As we talk about political risks, populism obviously isn't the only one in the global system right now. Our Dean, James Stavridis, frequently points to North Korea, cybersecurity, and biological risks as the domains that might be the biggest and most frequently overlooked in the 21st century. Do those impact your work at all? How do you view those, either from your own perspective or the perspective of a trade risk consultant?*

ALLGEIER: While I don't really deal with these issues in trade consultations,

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personally, I worry about them enormously. For example, it is becoming increasingly difficult to find a feasible solution to North Korea. Similarly, we face a real danger from situations where two big powers are testing each other—whether it's in the South China Sea or in the Ukraine—there could easily be a miscalculation by one side or the other that could rapidly escalate the situation. From a personal standpoint, I am

not overly confident that the current leadership in the United States is going to be as wise or fortunate as, say, during the Cuban Missile Crisis.

Regarding cyber threats, I think they certainly pose a significant threat to important infrastructure in the United States and elsewhere. While I am not a technical expert, there are some serious risks there.

FLETCHER FORUM: *You've served as acting U.S. Trade Representative during two presidential transitions, one for each party, in 2005 and 2009. Now that you are out of government, could you comment on the current transition in administrations, which is generating a lot of coverage and controversy?*

ALLGEIER: While a lot of the current controversies exist in areas other than trade, such as the EPA, it is interesting to see the change in the current administration's discourse on trade. If you look at the campaign and the early part of the transition, Trump said that the Commerce Department would lead on different trade negotiations and so forth. There have been a number of instances where administrations have come in and said things like, "We're going to put U.S.T.R. into the Commerce Department, we're going to stop all this trade stuff." Once they get in, they realize that (a) it's a lot more complicated than that, and (b) Congress will never let U.S.T.R. get folded into a big department like Commerce or State. And then, the Secretary of Commerce gets in there and says, "what do you mean I'm responsible for NOAA? I'm responsible for the Census Bureau, all this other stuff, *and* the Foreign Commercial Service?" A lot of that realization happens in one form or another. Often, an administration will bring in—maybe to the White House or Commerce Department—some senior counsel or senior adviser, who often comes from academia, thinking they're going to transform things and have a great impact. Unfortunately, a lot of them end up back in academia fairly soon.

I don't know what's going to happen with current White House trade adviser Peter Navarro. If you don't have the troops, and you don't have legal responsibility for operational things, you can have an influence, but it's not the same. I think as everyone gets into place, Bob gets confirmed as the United States Trade Representative, and the National Economic Council gets up and running, I think we're going to settle back into a more traditional organizational relationship among the different agencies with the White House. That's why I'm less concerned about that than how the policies are perceived.

FLETCHER FORUM: *Where do you see global trade going in the context of increased pressure on the U.S. to restrict it?*

ALLGEIER: I can't remember who said this, but we don't trade in goods, we trade in tasks. That's the whole thing about the supply chain: it's hard to believe it's efficient, but everybody is constantly moving parts and tasks back and forth across borders all the time. That's not just in automobiles, that's the way trade is conducted. It is an overwhelming function of technologies that are available now. I don't see that changing. I think that's where it's going. And it's certainly going more in the direction of services.

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The WTO and the OECD, from whom we get our trade statistics, did an analysis of the way balance-of-payments figures are collected and found that 25 percent of world trade is in services. But, within any manufactured good, there are a lot of services. If you think about the aircraft industry, for example, we've got confidential services, engineering design services, and logistics services, among others. So what they did is they used input-output analysis for several countries and economies, and said alright, if you did a value-added calculation of services, what share of world trade is services? And it's not 25 percent, it's 48 percent. For the United States, that is where we are super competitive. We have a quarter of a trillion dollars' surplus in international trade services, so that's where our economy is going, and it's a lot more brain jobs rather than muscle jobs. There will always be certain muscle jobs, but increasingly those muscles are also going to be robots. So for the United States that is where trade is going.

FLETCHER FORUM: *How do you view our position on trade agreements? We talked about this a little at the Conference panel, especially NAFTA, which President Trump has said he'll withdraw from, and the TPP, which he has refused to join.*

ALLGEIER: People aren't even looking at the trade agreements. There is also a lot of disinformation due to certain activist groups claiming that these trade agreements will cut our rules for food safety and environmental protection and similar things—there's nothing in the agreement which does that. The United States has strongly guarded its right to regulate, whether it is in financial services or food safety or environmental protection, and all that those agreements say is, you can continue doing that, as

long as you don't do it in a discriminatory way. If you're going to have the toughest rule possible on say, protecting birds, you can do it, but you have to apply it uniformly across the board. In terms of labor, each of the agreements has moved, as far as we can with our partners, toward respecting internationally recognized standards for workers' rights. There are a lot of things that people say are in these agreements that aren't, and it's really a challenge to get out information on what actually is and what isn't in these agreements.

One of the things people always think about NAFTA is that countries take us to dispute settlement and then they can undermine these same sorts of regulations. The United States has never lost a NAFTA case. There have actually been fewer and fewer in recent years because countries have been throwing out frivolous cases that they lost. There seems to be a conventional wisdom that NAFTA was this terrible thing, which it actually hasn't been. It's really been an economic boom for all three countries involved (United States, Canada, and Mexico). By the way, it is much better for us to have a stable, economically thriving Mexico on our borders than to have a chaotic, Venezuela-type situation on our borders.

FLETCHER FORUM: *We ended the panel with a question about the conditions leading up to World War I, and the idea that international trade linkages could prevent war was tragically disproven, now referred to as "the grand illusion." Do you think the current iteration of global economic integration you've talked about in the context of NAFTA is equally illusory, or is it fundamentally different, and what's different? Is it riskier or is it safer?*

ALLGEIER: Well of course, the issue there is what our trade relations are like with different countries and with whom we have the greater risk of conflict. For example, where are the two greatest risks of conflict? The most serious ones would be Russia and China, with which we have very different and sometimes difficult trade relations. However, we do have very good trade relations with Europe, Mexico, and Canada, so we're not going to go to war with them.

I don't think that trade can overcome other underlying conflicts, but good trade relationships can contribute to other broader economic relationships. Of course, trade now is different. There was always foreign

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investment and so forth, but now there's a much closer interaction because trade has so much more of an investment component to it.

I don't think that trade can overcome more fundamental conflicts of interest, but it can and does contribute to better relations.

FLETCHER FORUM: *Populism, as it's often understood—nationalist, protectionist, isolationist—flies in the face of a lot of the apparent truths that we often take for granted at a school of international relations like Fletcher. A lot of people here were surprised by the rise of populism, and we also remain somewhat at a loss as to how to communicate with citizens who, perhaps deservedly, are apparently fed up with the current model of globalization. What would you suggest we say to our fellow citizens, wherever we're from, who are inclined towards more nationalist, isolationist, or protectionist viewpoints? How would you suggest we frame our arguments for globalism in light of the populist backlash?*

ALLGEIER: I think this is something that the trade community in the United States is grappling with. We have been losing the battle for a while. Americans think that the United States is being taken advantage of by all of these ne'er-do-wells. Our response to that has been to play a statistics game and show how it's beneficial. For most people, as Mark Twain said, "there's lies, damn lies, and statistics." People are responding to stories. People who have better stories at the moment, or at least tell them better, are able to evoke responses, such as clichéd stories about the guy who used to have this great job in Ohio and who's now working as a crossing guard.

I think part of it is that on the trade side, we need to do a better job of telling stories. The other thing is that we have not gotten across how mass disruptions in technology and manufacturing have impacted trade flows. In academic circles, everyone understands it, but somehow we have not been able to get that across to the public. My pet peeve is the education system in the United States, especially at the secondary level, which is not telling the story about the global economy and how trade works. To the extent that a story is told, it is told by teachers who belong to unions and present the board manufacturing union's stories on trade. I think we need better education in secondary schools on the actual state of the world economy and about the role trade serves in it. *f*