



## “Friendshoring,” ag markets, North American integration among issues examined at Yeutter Institute symposium

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A Nov. 2, 2022, symposium sponsored by the University of Nebraska-Lincoln’s Yeutter Institute brought together experts addressing a wide array of trade matters, including global ag market dynamics, North American economic integration and Asia-Pacific economic diplomacy. Among the key questions discussed:

- What complications arise for efforts to shift trade policy toward “friendshoring”?
- How well has North American economic integration fared in the wake of NAFTA and its successor, the USMCA?
- What factors, such as the Russian invasion of Ukraine, are currently affecting agricultural markets and global food insecurity?
- What guideposts can best direct U.S. economic diplomacy in the Asia-Pacific region?
- Does the World Trade Organization retain relevance amid changing global trade conditions?

This biennial Yeutter Institute event, with in-person and online attendance, was held at the University of Nebraska’s Innovation Campus and featured the theme, “New Patterns of Trade Integration.” Complete YouTube video of the speakers and panels is [here](#).

Here are key observations made by speakers and panelists:

### **Presentation: “Consensus and Accommodation: Where are the New Fault Lines in International Trade?”**

*Edward Alden, Ross Distinguished Professor at Western Washington University and senior fellow at the Council on Foreign Relations.*

In the U.S. as well as Europe, “there is a growing internal divide” over which countries are appropriate to trade with on national security grounds and other considerations, Alden said. That policy discussion arises from the weakening of the post-World War II consensus on a liberalized

global trading system focused on multilateral agreements. “That consensus has been fraying in many ways for the last couple decades. That doesn’t mean we’re all protectionists, but rather that there is no narrative in favor of further trade liberalization that commands anything close to popular support.” The discussion of new approaches stems, too, from the strained Western relations with China (over pushback against globalization, as well as supply-chain concerns) and Russia (over its invasion of Ukraine). “We are asking fundamental questions of how we organize our trade with the world that have not been asked really since the formation of the Bretton Woods system,” Alden said. “We’re in a big period of uncertainty.”

A policy alternative currently floated by some policymakers calls for adopting a values-based approach that would shift the bulk of a country’s trade toward like-minded countries. Treasury Secretary Janet Yellen has termed the concept “friendshoring,” and Chrystia Freeland, Canada’s deputy prime minister and minister of finance, expounded on the concept during an [Oct. 11 presentation](#) at the Brookings Institution. Such a values-driven approach could focus in some instances, for example, on clean energy goals. “The emerging consensus is toward the narrower, friendshoring model,” Alden said.

Friendshoring runs into complications, however, Alden cautioned. One is that it’s difficult to see how friendshoring’s exclusionary focus can be reconciled with the array of existing WTO provisions, such as Most Favored Nation status, that extend benefits broadly to all WTO members. “The reason the WTO system has been so successful is the principle of nondiscrimination.” Friendshoring “is incredibly hard to organize. A nondiscriminatory system allows market forces to determine a lot more of this.” Sixty-five percent of U.S. trade is still conducted under multilateral WTO rules. So, the United States is still dependent on “a very much bigger system” that, through the WTO, includes countries often unfriendly to U.S. interests. “I’m not sure you can lop that off in any way that isn’t enormously disruptive to the world,” Alden said. A values-focused trade policy would, among other effects, raise the prospect of major disruptions in U.S. trade with Persian Gulf nations and much of Africa.

“The aggregate benefits of liberal trade for the world have been repeatedly vindicated by failed experiments with the alternative,” Alden said. “There’s no better other model out there about how to organize human economic affairs.” Still, trade has “aggregate benefits but concentrated costs” — costs such as globalization-related employment losses in developed countries — and that has spurred public pushback against the postwar WTO framework.

A sound case can be made, Alden said, that “instead of pulling up the drawbridges, we should be preserving and strengthening as much of the existing trade system as we can.” Such an approach could involve export restrictions on targeted investment restrictions tied to major security risks, such as high-end semiconductors. “You can do that without creating a new norm that says we’re only going to trade with nations that share our values.” In any case, he said, proponents of friendshoring don’t appear focused on replacing the multilateral WTO system in its entirety. Rather, their discussions involve options that would enable an “end run” around it.

## **Presentation: U.S. Leadership and the World Trade Organization**

*Andrea Durkin, Assistant U.S. Trade Representative, WTO and Multilateral Affairs.*

As is widely noted, the World Trade Organization is “at an inflection point,” Durkin said. Rules under the WTO have helped countries weather current trade instabilities, but at the same time, “never before have its member agreed more on the need for reform.” No sweeping overhaul is in prospect, but positive steps can be noted. Trade in ag products and foodstuffs provides an example. Through WTO discussions in June, countries agreed not to impose export prohibitions or restrictions on foodstuffs purchased for humanitarian purposes by the World Food Program. WTO deliberations this year produced agreement on further improvement in addressing sanitary and phytosanitary concerns in global trade. A key guidepost expressed to the WTO is to “reform by doing,” not by talking.

“We are increasingly confronted with new trade practices and new technologies not covered by existing WTO rules,” Durkin said. “E-commerce is a good example of that. WTO members also struggle to address unfair trade practices by non-market economies.” In response, groups of WTO members since 2017 have begun addressing issues through Joint Statement Initiatives (JSIs). Sixty-seven WTO members reached an agreement in December 2021 setting out common parameters for services related to domestic regulation. The members’ economies account for more than 90% of global services trade. Through improvements facilitated by the agreement, businesses will see reduced trade costs of up to \$150 billion annually.

“Another important JSI covers e-commerce,” Dukin said. “Eighty-seven members of the WTO are now part of this negotiation on e-commerce provisions that have been largely completed in the area of e-signatures.” The provisions protect the identity of users in e-commerce transactions and cover consumer protections, open government data, paperless trading and digitization of customs procedures.

## **Panel: North American Integration and the State of Trade**

*David Gantz, Will Clayton Fellow, Baker Institute, Rice University; Professor of Law Emeritus, University of Arizona.*

*Eric Miller, President, Rideau Potomac Strategy Group.*

*Kenneth Smith Ramos, Partner, AGON; Mexico’s Former Chief Negotiator for the U.S. Mexico Canada Agreement.*

*Moderator: Ken Levinson, Executive Director, Washington International Trade Association.*

Panelists described the trajectory of North American economic relations and the evolution of trade policy orientation in individual countries. North American economic integration took its initial step forward in 1965 with the signing of a U.S.-Canadian auto products agreement, Gantz said. The two countries followed up in 1988 with a bilateral free trade agreement, spurring interest in Mexico (a WTO member since 1986) to join. NAFTA took force in 1994, replaced by the U.S. Mexico Canada Agreement (USMCA), which became active in July 2020.

Canada “is a smallish open economy,” Miller said. “It needs global trade. It needs global investment. There’s a vast store of resources in Canada, and there’s not enough capital to develop it. ... There is a general consensus in Canada about the importance of global trade and the importance of being integrated into world markets.” Since the 1980s, Mexico has gone from being a closed, low-income economy, focusing on import substitution, to one widely engaged in world trade, said Ramos, a past key trade negotiator for the country. Mexico now has 14 trade agreements with 50 countries that account for 70% of global economic output, and Mexico is one of the world’s leading exporters. The experience over the past four decades has “really changed the economic paradigm for Mexico.”

The USMCA overall has proved to be a sound revamp of NAFTA, the panelists agreed. The agreement achieved needed consensus on issues such as labor standards, digital technologies and environmental issues and established a dispute resolution process that has demonstrated its effectiveness. The negotiations were constructive, said Ramos, a key participant in the process, by beating back nonstarter proposals from the Trump administration such as eliminating any U.S. trade deficit with Mexico. In the end, “we preserved free trade, we maintained the dispute settlement mechanism and, most importantly, we modernized the agreement. So, 12 new chapters were added on key elements that are essential to today's global economy, such as digital trade and all the advances in information technology, energy technology, environmental technology.” NAFTA placed labor and environmental issues in side agreements lacking strong dispute settlement provisions. The USMCA, in contrast, fully incorporates those issues as central parts of the agreement, with direct connection to a clear dispute settlement process.

North American trade relations face various strains, the panel said. Ongoing U.S.-Canada trade frictions concerning the lumber and dairy sectors are unavoidable, given the interest in each country to shelter those sectors. The Mexico government’s planned ban on genetically modified corn would greatly threaten U.S. corn exports to the country. Under President Andrés Manuel López Obrador, “a lot of domestic policies in Mexico are causing problems by going backward,” with an increased emphasis on coal and nationalizations to recreate state monopolies, Ramos said. Such action by Mexico is creating an “anti-investment climate” for the country, said Gantz. Meanwhile, the U.S. interpretation of USMCA provisions regarding automotive rules of origin has provoked sharp complaint from Mexico and Canada. Members of Congress from California and Florida are pressing for protectionist action against the import of Mexican fruits and vegetables.

Increased production of electric vehicles and EV batteries will transform the auto industry and create complications for a future USMCA revamp. “We are transitioning to electric vehicles, and the rules of origin in the USMCA were written for the internal combustion engine,” Miller said. “You don't need a lot of the same components in an electric vehicle. ... If I were Mexico, I'd be quite concerned about that, because with the renationalization of the electricity sector and some of the hostility toward electric vehicles, that's something that's been a challenge.” Canada produces about 2 million automotive vehicles annually and has a major interest in maintaining a robust domestic auto sector. “Ultimately what I worry about is that we're going to get to a point where nobody is going to be able to meet the content requirements of the rules of origins” under

the USMCA. “And then there is the pesky issue of the Inflation Reduction Act, which mandates that 100% of content of certain components either originate in the U.S. or in a free trade partner by 2029, and 80% of the minerals. How does that reconcile itself with the USMCA rules of origin?”

### **Panel: What Does the War in Ukraine Mean for Agriculture Markets and Global Food Security?**

*Dalton Henry, Vice President of Trade Policy, U.S. Wheat Associates.*

*Jason Grant, W.G. Wysor Professor of Agriculture and Director of the Center for Agricultural Trade, Virginia Tech.*

*Yacob Zereyesus, Senior Economist, USDA Economic Research Service.*

*Moderator: Katrin Kuhlmann, Visiting Professor of Law, Faculty Co-Director, Center on Inclusive Trade and Development, Georgetown University Law Center.*

There are four dimensions to understanding food security, Kuhlmann said: The market dimensions, encompassing price and supply factors; moves to diversify crop production; the need for sustainable development; and challenges for global trade rules in facilitating food security. Zereyesus, with USDA’s Economic Research Service, cited relevant numbers from a [recent ERS analysis](#) of 77 low- and middle-income countries: From 2021 to 2022, the number of food insecure people worldwide increased by 118 million (9.8%) to 1.3 billion. Disruptions stemming from Russia’s invasion of Ukraine accounted for almost 42 million of the increase. (Data from Grant showed that nearly 50 countries import more than 30% of their wheat from Russia or Ukraine.) In the 77 countries studied in the ERS report, 32.9% of residents had a average daily dietary intake that falls below the 2,100 kilocalories designated as the level needed for adequate health. The ERS analysis projects that by 2032, the number of food insecure individuals in those countries will improve, falling by 56.7% to 577.3 million due to income growth and eventual restoration of stability in markets disrupted by the Russian invasion.

Panel members expressed concern about the lack of effective mechanisms to prevent countries from restricting their agricultural exports in the wake of the Ukraine conflict. “If we look at the reality of global wheat trade today,” Henry said, “there is no real effective discipline on export restrictions.” Wheat export restrictions imposed by Russia and India and planned by Argentina have significantly disrupted global markets this year. In analyzing the global wheat market in the wake of the Ukraine conflict, Henry said, “This is really a price story much more than it’s an availability story.” The global wheat supply is significant and adequate, but major price increases plus export restrictions hindered adequate access to food insecure residents. Significant price increases actually began about six months before the Russian invasion. “We were already in a situation of talking about increased food insecurity due to those higher prices.” The WTO did achieve a degree of progress this year, as Durkin noted, with agreement among a set of member nations not to impose export prohibitions or restrictions on foodstuffs purchased for humanitarian purposes by the World Food Program.

To boost long-term agricultural sustainability, the panelists said, developed nations should strengthen efforts to share their production and sanitary/phytosanitary innovations with developing countries.

**Panel: Understanding the Asia-Pacific: Geopolitics, Trade, and Investment**

*Ellen Frost, Senior Advisor and Fellow, East-West Center.*

*Christine McDaniel, Senior Research Fellow, Mercatus Center, George Mason University; Non-Resident Fellow, Yeutter Institute.*

*Wendong Zhang, Assistant Professor, Dyson School of Applied Economics and Management, Cornell University.*

*Moderator: Jill O'Donnell, Haggart-Work Director, Yeutter Institute.*

The United States retains vital economic connections to the Asia-Pacific region, and the area holds enduring strategic importance for the U.S. The region annually imports about 30% of U.S. goods exports, and the U.S. has five treaty allies in the region. Asia-Pacific nations have achieved striking regional stability, in stark contrast to the upheavals of the 20th century. The leadership of the late Japanese Prime Minister Shinzo Abe contributed significantly to that progress this century, Frost said. A quality-focused infrastructure initiative Japan spearheaded for the region has proved successful and popular. Japan rescued the Trans-Pacific Partnership trade agreement. Through such efforts plus skilled diplomatic outreach, Japan now enjoys notable respect in the region, as reflected in opinion polls across multiple countries. “It’s really made a difference in the dynamics of the region,” Frost said. “A lot of that is going in a constructive direction.” The U.S., in contrast, has often undermined its diplomatic effectiveness in the region by coming across as preachy and arrogant. The U.S. needs to step away from that tone and demonstrate that it is “a good listener and a good partner.” It’s important to understand that Pacific-Asia countries do not want to be forced to choose sides between the U.S. and China.

The Asia-Pacific region “is changing very dynamically,” accounting for the world’s largest advances in personal income growth, Frost said. Although any comprehensive trade agreement with the region would face little chance of approval in Congress, opportunities for smaller agreements are available on issues such as the digital economy. “That’s where trade is headed in the near term,” Frost said. China is a complicating factor on the trade front due to its use of non-market policies and industry subsidies plus its “wolf warrior diplomacy” that economically punishes countries with which it disagrees. The Beijing government also is now seeking to reduce its reliance on U.S. imports. China has fallen short of its pledged import volume under the Phase 1 agreement negotiated by the Trump administration, Zhang noted. A significant portion of what China has imported stemmed less from that negotiation than from domestic Chinese policy decisions and circumstances, such as soybean imports needed to build back China’s hog numbers in the wake of major swine fever incidence.

A recent study McDaniel coauthored looked at possible economic disruptions from a Chinese invasion of Taiwan and found two central concerns: delays in container ship deliveries, and attacks on underground cables that carry data and associated land stations. If container ships

need to be diverted as far south as Australia, the report stated, that could add four to six weeks to deliveries and increase total shipping costs by \$2.8 billion per month. Overall, McDaniel said, it's in the U.S. strategic interest to engage China on key global issues, given China's great weight in terms of population and effect on the global economy and environment. "We're going to have to figure out how to cooperate with China on these key issues. We need a lot of creativity and boldness in the solution-finding arena."

*Opinions expressed are solely those of the author and not the Yeutter Institute or the University of Nebraska-Lincoln.*