

The threat to world trade

The rules-based system is in grave danger



DONALD TRUMP is hardly the first American president to slap unilateral tariffs on imports. Every inhabitant of the Oval Office since Jimmy Carter has imposed some kind of protectionist curbs on trade, often on steel. Nor will Mr Trump's vow to put 25% tariffs on steel and 10% on aluminium by themselves wreck the economy: they account for 2% of last year's \$2.4trn of goods imports, or 0.2% of GDP. If this were the extent of Mr Trump's protectionism, it would simply be an act of senseless self-harm. In fact, it is a potential disaster—both for America and for the world economy.

As yet it is unclear exactly what Mr Trump will do (see Briefing). But the omens are bad. Unlike his predecessors, Mr Trump is a long-standing sceptic of free trade. He has sneered at the multilateral trading system, which he sees as a bad deal for America. His administration is chaotic, and Gary Cohn's ominous decision on March 6th to resign as the president's chief economic adviser deprives the White House of a rare free-trader, signalling that it has fallen into protectionist hands. Not since its inception at the end of the second world war has the global trading system faced such danger.

Rough trade

This danger has several dimensions. One is the risk of tit-for-tat escalation. After the EU said it would retaliate with sanctions on American goods, including bourbon and Harley-Davidson motorbikes, Mr Trump threatened exports of European cars.

The second danger springs from Mr Trump's rationale. The tariffs are based on a little-used law that lets a president protect industry on grounds of national security. That excuse is self-evidently spurious. Most of America's imports of steel come from Canada, the European Union, Mexico and South Korea, America's allies. Canada and Mexico look set to be temporarily excluded—but only because Mr Trump wants leverage in his renegotiation of the North American Free-Trade Agreement, which has nothing to do with national security. Mr Trump is setting a precedent that other countries are sure to exploit to protect their own producers, just as spuriously.

It is not clear whether other countries can respond legally when national security is invoked in this way. This puts the World Trade Organisation (WTO) into a rat trap. Either Mr Trump will provoke a free-for-all of recrimination and retaliation that the WTO's courts cannot adjudicate, or the courts will second-guess America's national-security needs, in which case Mr Trump may storm out of the organisation altogether.

Mr Trump has lobbed his grenade as the WTO is already under strain. The collapse of the Doha round of trade talks in 2015, after 14 fruitless years, put needed reforms on hold indefinitely. Disputes that might have been swept into a new trade round have fallen to the WTO's dispute-resolution machinery, which is too slow and too frail to carry the burden. The WTO has not kept pace with economic change. Investment is increasingly tied up in intangibles, such as patents and cop-

than physical assets, such as steel mills. Rules drafted for rich, market-led economies cannot always police state capitalism. The implicit subsidies China gives its producers were a cause of global gluts in industrial metals. No wonder that the world's second-biggest economy has been the focus of so much anger.

Whatever the WTO's problems, it would be a tragedy to undermine it. If America pursues a mercantilist trade policy in defiance of the global trading system, other countries are bound to follow. That might not lead to an immediate collapse of the WTO, but it would gradually erode one of the foundations of the globalised economy.

Everyone would suffer. Mr Trump seems to think trade is a zero-sum affair, in which a deficit is a sign of a bad deal. But the vast improvement in living standards after the second world war went hand in hand with a rapid expansion in world trade over eight trade rounds, each of which lowered barriers. Imports are in fact welcome, because they benefit consumers and spur producers to specialise in what they do best.

Without the WTO, cross-border trade would continue—it is unstoppable—but the lack of norms and procedures would leave disputes to escalate. The fewer the rules, the more scope for mercantilist mischief and backsliding. Trade policy could be captured by special interests. Military power would hold greater sway in trade disputes than economic fair play. Transnational investment could drain away. As a vast continental economy, America would lose less from this than other countries. It would nonetheless lose a lot, including a pillar of the system that has underpinned its post-war political influence.

How should the world get out of this bind? Even as Mr Trump behaves with astonishing irresponsibility, others must keep their heads. Some may impose limited retaliation—that, after all, is how to treat bullies, and the threat to local manufactures will strengthen the hand of Republicans pressing Mr Trump to relent. But such action must be proportionate and limited. A tit-for-tat war with America would be disastrous.

Back to basics

The more important task is to shore up support for trade. It would be comforting to think there is global backing to fix the WTO. But just now, there is not. The only new trade deals on offer are regional, such as the Trans-Pacific Partnership (TPP), an 11-country pact signed this week that sets out to be a blueprint for trade modernisation. Although Mr Trump abandoned it, he has hinted he may reconsider, which would be a start.

The best way to help the WTO would be for its other members to co-ordinate any action, including bringing in a WTO complaint about Mr Trump's tariffs. Even though that may burden the WTO's court, it would be a vote of confidence in the idea that the global economy should be governed by rules.

The world is a long way from the 1930s, thank goodness. Yet ignorance and complacency have put the trading system in grave danger. Free-traders need to recognise that the WTO can help keep markets open in the face of protectionist lobbying, at home and abroad. It is vital they make the intellectual case for rules-based trade. That will not be easy. For the first time in decades, their biggest foe is the man in the Oval Office. ■