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Seeing Through The Fog of Trade War

By Evan Rogerson

Synopsis

In the US, trade policy is making the headlines, and maybe the headlines are making trade policy. Other governments need to look beyond the rhetoric and continue to work on the co-operative structures that can eventually contribute to rebuilding a broad trade consensus.

Commentary

LIKE BAD money driving out good, the reality TV show of the Trump administration has been driving out thoughtful conversation across the policy spectrum, trade included. Trump's trade policies are undoubtedly more nakedly unilateral than those of his predecessors, but the underlying issues have been emerging for some time.

For more than half a century trade was a largely bipartisan issue in industrialised countries, support for the rules-based multilateral system established in 1948 was a given, and governments generally approached that system in a pragmatic way. It suited governments to have a system where trade issues could be handled in a relatively low-key way and to uphold the rules, in word if not always in deed.

The Unravelling of Postwar Trade Consensus

So, for example, they avoided pushing disputes over use of the security exception in Article 21 of the GATT to the limit, aware that to do so could break a system that remained useful to all. Disputes could be lengthy and intense, such as the US-EU banana case, but they remained essentially trade disputes, conducted within the multilateral rules.

Seattle in 1999 showed that the politics of trade were becoming more volatile, but the events of that year had only a limited impact on policymakers. Indeed, two years later

came the high point of the postwar trade consensus. The 2001 launch of the Doha Development Round was based on the assumption that opening up trading opportunities within agreed rules was beneficial for developing and developed countries alike and that the multilateral system could become more genuinely inclusive.

As we know, it did not work out that way. One key reason was the other major event of Doha in 2001- the accession of China to the WTO. The rapid rise of China as a major trading power in the following years, and the reactions to it, showed the fragility of the Doha consensus. China's exports to the US sustained consumer purchasing power but also fuelled anxiety about competition and deficits.

Well before Trump, the US and other advanced economies became increasingly resistant to treating China and other emerging powers, like India, as developing countries on the same basis as poorer economies. They in turn became more defensive. This was the rock on which the last serious attempt to save the Round sank in 2008. The Doha consensus sank with it. In the ten years since, its place has been inadequately filled by a range of unilateral, bilateral and plurilateral initiatives, realised or planned, of varying quality and credibility.

The Exploding Trade Universe

The most significant new plurilateral initiative so far is the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) whose continuation and success despite US withdrawal was a rare item of good news. Hopes for the Regional Comprehensive Economic Partnership (RCEP) have been boosted by the success of CPTPP, though an end-year deadline still seems ambitious in view of the interests to be reconciled, not least those of India and China and their competing regional visions.

The North American Free Trade Agreement (NAFTA), on the other hand, remains mired in a renegotiation whose goalposts appear to be in perpetual motion. Further out on the time horizon are the ASEAN trade agenda, AFTA, and the African Free Trade Agreement.

Then there are proposals that appear to come from the political needs of the moment rather than any serious policy analysis. Talk of a Commonwealth trade agreement is the outstanding example. The chances of it going anywhere can be rated even lower than those of the US rejoining CPTPP any time soon.

On the other hand, major bilateral agreements, particularly EU-Japan, but also EU-Canada, are important not only for their depth and the volume of trade they cover. They also position the EU to take a more outward-looking leadership role in trade policy that its leaders, especially President Macron and Chancellor Merkel, seem keen to assume.

The Centre Cannot Hold

After ten years of centrifugal movement the trading system is now more fractured than at any time since 1945. Negotiation has effectively moved out of the multilateral arena,

and this includes the negotiation of new trade rules. This makes the “spaghetti bowl” problem that experts have long warned about a looming reality.

Worse still, the crucial and irreplaceable function of the WTO system, the dispute settlement mechanism, is approaching crisis point over the continuing US blockage of new appointments to the Appellate Body (AB). The American position relates to a view that the system is weighted against them, which does not at all square with the fact that they have won most of their cases.

It is hard to see how other governments can accept the kind of realignment that the US seems intent upon. All that is clear is that if the impasse is not resolved by October the AB – and hence the dispute settlement system – will no longer be able to function. This is a more serious threat to the rules-based trading system than even the rumblings of trade war.

Rebuilding Consensus Amid Limited Options

The options available to other governments to deal with this threat are limited. Perhaps the best hope is to agree on some superficial changes that will enable Trump to proclaim a victory, as he did with NATO.

Beyond the immediate menaces, the long-term need is to work to rebuild a new trade consensus. It will have to bridge the industrialised/emerging economy divide, deal with key trade realities such as digital commerce and respond more effectively to social and environmental needs.

The work that has been done in CPTPP, and is being done in RCEP, can help point the way. These negotiations have spanned a wide range of economic levels and responded to concerns that the paralysed WTO cannot take up. Keeping on with them and extending their coverage is the only alternative we have at present.

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