

ELEPHANTS IN THE ROOM

Will Global Trade Survive 2018?

Under Trump, the international trade regime is at risk. This year could see it topple.

BY **ROBERT A. MANNING** | JANUARY 5, 2018, 5:17 PM

The future of the global trade system faces more risk and uncertainty than at any time since it was created after World War II. This year promises to be a decisive one for trade, with results likely for renegotiations on the future of the North American Free Trade Agreement (NAFTA), the U.S.-Korea Free Trade Agreement (KORUS), and the now Japan-led Trans-Pacific Partnership (TPP). Add to that the fate of the World Trade Organization, and 2018 could see a disruption of the global trade regime, which Trump views as the all-purpose villain destroying the U.S. economy.

Trade faces structural hurdles, challenges posed by fast-emerging new technologies, and not least, lingering populist-nationalist, anti-globalization backlash in the West. Last year's WTO ministerial meeting in Argentina ended indecisively on December 13. But the biggest wildcard impacting the future of trade is President Donald Trump's sharp reversal of the historical U.S. role.

Since it helped shape the General Agreement on Tariffs and Trade, the WTO's predecessor, in 1948, setting the rules for world trade, the United States has led every round of trade liberalization. For most of the past seven decades global trade grew twice as fast as the global economy. This era is over. Trump rode into office on his fury at trade and all trade deals, which he cast as the all-purpose

cause of middle-class malaise. He denounced NAFTA and rejected the TPP, the WTO, and KORUS. He withdrew immediately from the TPP, which experts often described as a pillar of U.S. Asia strategy, and forced renegotiations of NAFTA and KORUS.

To be fair, Trump has a point: The American public does (mistakenly) blame trade for many of its woes. While trade was a large factor in the 1980s and 1990s, in this century the technology and automation have caused the vast majority of job losses. Moreover, updating trade accords to address rules for new technologies like digital commerce, the environment, and other factors is reasonable. The WTO has not completed a new round of global trade liberalization in two decades — the **Doha Round** is dead. And Trump has a point: China's admission to the WTO was based on assumptions that have proved false (for example, continued market reform and opening). The United States did not anticipate that China would so rapidly become the world's foremost trading power and adopt predatory, mercantilist trade and investment policies.

But Trump's zero-sum view of trade defies economics. Though he calls for reciprocal, free, and fair trade, his only measure is whether the United States has a bilateral deficit. Trade accords are designed to open market access for trading partners' respective goods and services, not guarantee outcomes, surpluses, or deficits. By that measure, fair trade is an impossible standard. I have a deficit with my car dealer, but I have a new car — a fair exchange. A nation's savings and investment, whether it consumes more than it produces, determines deficits. Any U.S. bilateral deal may decrease the deficit with a particular country, but like whack-a-mole, it would show up somewhere else, with another U.S. trading partner.

Trump's speech to Asia-Pacific Economic Cooperation CEOs in Da Nang, Vietnam, was close to an assault on the global trade system, including denouncing the WTO as unfair (though the United States has filed the most WTO

disputes of any country, **over 100**, and won most). He rejected any multilateral accords, saying the United States would only negotiate bilateral agreements.

The sovereignty term is a reference to the WTO and multilateral accords generally. Trump has hamstrung the WTO dispute settlement mechanism, the organization's crown jewel, by blocking two judges and not appointing U.S. judges. While there is widespread feeling that the WTO needs reform, Europeans complain that the United States has not offered any specific criticisms or solutions. Cecilia Malmström, the EU top trade official, **said** in an interview she feared that the United States risked "killing the WTO from the inside." But Robert Lighthizer, the top U.S. trade official, praised the recent WTO ministerial, **saying** that it "will be remembered as the moment when the impasse at the WTO was broken," implying that the U.S. wants to mend, not end, the WTO. He added, "Many members recognized that the WTO must pursue a fresh start in key areas so that like-minded WTO Members and their constituents are not held back by the few members that are not ready to act."

Nonetheless, the Trump administration is gearing up to act unilaterally, and is likely to impose trade sanctions on China and impose penalties on intellectual property violations. These are likely to come about in 2018 and could spark a trade war.

In addition, the fate of NAFTA may soon be decided. Trump has made demands that it be renegotiated every five years, and for ending its dispute settlement mechanism and changing rules for auto manufacturers. Mexico and Canada see all three changes as deal killers. No major auto companies back Trump's proposed changes, which would disrupt global supply chains. Similarly, Seoul is concerned that the KORUS agreement may be at risk.

If Trump moves forward with unilateral trade sanctions, a trade war is likely to ensue — one in which there would be few winners, and which would engender the sort of beggar-they-neighbor protectionism seen in the 1930s, eroding the rules-

based order that the United States has long championed and enforced.

The United States, which accounts for only 13 percent of world trade, could find itself isolated under these conditions. The rest of the world is moving on. The EU is concluding trade pacts with Canada and Japan and seeking to pursue additional trade deals in Mexico and around the world. A revised **TPP-11** is likely to be finalized in 2018. Ironically, the net effect, if Trump acts on his willfully ignorant views, may be that the United States will no longer be party to new trade liberalization arrangements and U.S. exporters will lose many market opportunities.

*This is an expanded and revised **adaptation** of an article that appeared in Global Times.*

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