

Trade Blockage

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Multilateral rules-based system

- Mr Trump's assault on the multilateral rules-based system threatens decades of trade liberalisation.
- Trade liberalisation has nudged average tariffs between America, Europe and Japan down from 22% when the system started in 1947 to around 3% by 2000.

Clear commitments

- At the core of modern-day multilateralism is the idea that countries sign up to a set of clear commitments.
- The WTO's members promise not to raise tariffs above agreed levels and to apply them based on the principle of "most favoured nation" (MFN).

Trade-off

- **WTO membership involves a trade-off**, between the costs of compliance and the benefits of maintaining access to a 164-strong club accounting for 98% of world trade.
- If the penalties turn out to be greater than expected, the system has built-in safety valves.
- If imports are surging, **subsidised** or sold below cost, threatening domestic industries and jobs, members can apply defensive duties.

- Understanding the American assault on this system requires identifying its various fronts.
- The first is driven by Mr Trump's disregard for rules ... he is itching to withdraw from the WTO altogether.

- But other fronts in the Trump administration's trade policy have greater sticking power.
- They are being pushed by Robert Lighthizer, the United States Trade Representative (USTR).
- And crucially, his complaints about [the system] are shared by many in Washington, DC, and across the world.

Two complaints

- The first relates to the WTO's appellate body—the system's supreme court.
- America's gripe is that rulings have impeded its ability to use the WTO's pressure valves.

“public body”

- The Americans had claimed that where the government owned a majority stake in an enterprise, it should automatically count as a “public body” liable for handing out subsidies.
- But the appellate body ruled against them.

Second set of grievances

- When WTO negotiators agreed that China should join in 2001, they expected it to evolve towards Western-style capitalism.
- What has emerged instead is an economy dominated by state-subsidised enterprises with a regulatory regime geared towards the theft of American intellectual property

The spirit of WTO

- In many industries, China's government required that foreign firms investing in its market did so in joint ventures with local companies.
- The Americans complain that too often their firms had to hand over technology as a condition of access to the Chinese market, and then watched helplessly as partners ran off with their ideas.

An earlier American solution

- An earlier American solution to this gridlock was to pursue ambitious regional trade deals. In Asia the Obama administration agreed the Trans-Pacific Partnership (TPP)
- It included tougher rules on state-owned enterprises.
- After Mr Trump swiftly jettisoned that approach, Mr Lighthizer is spearheading a quicker, dirtier one.

Section 301

- He has used Section 301 of the Trade Act of 1974 to accuse the Chinese of causing harm to America's economy.
- In the 1980s, Section 301 was used by the Reagan administration to threaten Japan with tariffs unless it curbed its exports to America.
- The resulting tangle of restrictions made free traders squirm, but advocates argued that aggression served a higher purpose.

- The EU sees an opportunity to act as a bridge between China and America to negotiate new rules.
- The plan is to make China's choice clear, between an unstable trading system and one with new rules that meet the others' concerns.

Trilateral talks

- Trilateral talks: America, the EU and Japan.
- The trio are trying to overturn the appellate judges' definition of "public bodies", by broadening it to make it easier to deem a state-owned enterprise to be an arm of the Chinese government.

Chances of success

- Even if America, the EU and Japan do manage to draw up what they see as a perfect set of new rules, China may not play along.

Expectations

- The Chinese may call America's bluff, hoping that when Mr Trump goes in two or six years' time, the next president will be less keen to tax his citizens by raising the cost of imports.
- If so, expect tariffs to continue.