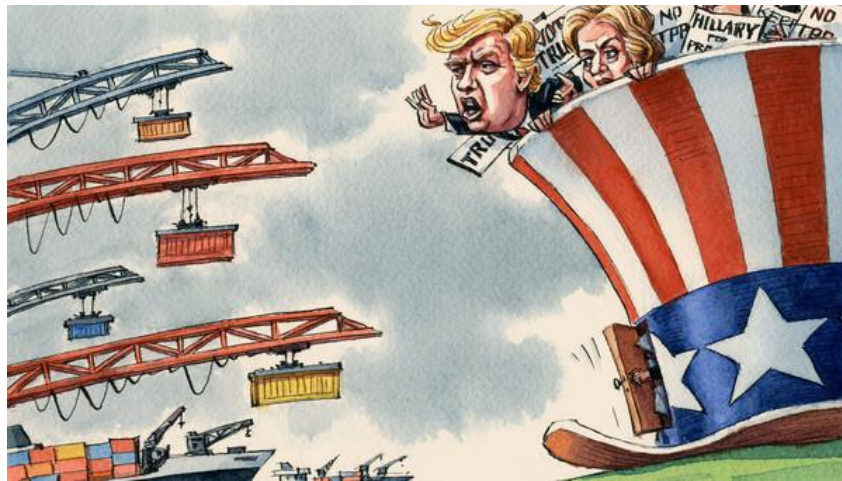


US politics is closing the door on free trade

Philip Stephens

Without America, momentum will be lost. The danger will be of a slide into outright protectionism



Donald Trump wants to slap punitive tariffs on China. Hillary Clinton opposes the 12-nation Trans-Pacific Partnership she once hailed as a gold standard for a new generation of free trade deals. Republicans are embracing Democrat demands for “fair” trade. **The US, the architect of the open global system, is turning inwards.**

The rest of the world should sit up. This is about more than the raw political emotions stirred by a US presidential race. **The World Trade Organisation’s failed Doha Round saw the end of the multilateral trade liberalisation** that gave us the globalised economy. The failure of the TPP would read the rites over the big plurilateral deals that promised an alternative. Free trade has been a powerful source of prosperity. It has lost political legitimacy. And not only in the US: European populists of left and right share the Trumpian disposition to throw up the barricades.

Optimists hope the protectionist turn in the US is cyclical. Things will get back to normal once the cacophony of the presidential contest subsides. Freed from the primary challenge of Bernie Sanders, Mrs Clinton, the most likely successor to President Barack Obama, will find a way to change her mind again. The TPP could yet be smuggled through Congress during the lame-duck interlude after November's elections. Such is the line from Mr Obama's White House and from a diminishing band of Republicans true to their free trade heritage.

All the evidence points the other way. **Globalisation has gone out of fashion.** Shrewd Washington observers have concluded that, as one puts it, "there is not a chance in hell" of the next president or the next Congress — of whatever colour — backing the TPP. As for the mooted, and now being negotiated, Transatlantic Trade and Investment Partnership (TTIP) designed to integrate the US and European economies, dream on.

Mr Trump has struck a powerful chord among his core constituency in blaming foreigners for America's economic ills. **The backlash against free trade,** though, runs deeper than cheap populism. The middle classes have seen scant evidence of the gains once promised for past deals. Republicans, fearful that they have already lost the presidency, do not want to risk handing Congress to fair-trade Democrats.

Some problems are specific to the TPP. The prospective wins for the US are heavily tilted towards technology businesses on the west coast. Manufacturing America thinks it secures little in the way of better access to Asian markets and complains that the deal leaves US companies vulnerable to currency manipulation by overseas competitors.

Many more Americans than would ever gift their votes to Mr Trump question whether they get anything out of trade deals. Free trade has always created losers, but now they seem to outnumber the winners. There is nothing populist about noticing that globalisation has seen the top 1 per cent grab an ever-larger share of national wealth.

The nature of free trade deals has changed. They used to be about tariffs. Now they focus on regulatory standards and norms, intellectual property rights, data privacy and investment protection. These are issues that cut deep across national political and cultural preferences. Lowering import duties is one thing; persuading voters to relax the rules on data protection or accept new rules on food safety is another.

New global trade under old national rules



Regulation has not kept pace with the growth of cross-border services

The **geopolitical calculus has also shifted**. For the world's advanced democracies, postwar trade liberalisation was self-evidently win-win. Sure, it was self-interested on the part of the US, but it also served a wider good. Trade deals with Europe and America's Asian allies at once promoted growth in those regions, provided markets for US industry and strengthened the fight against Soviet communism. **China's entry into the WTO in 2001 changed things. Beijing has become the biggest beneficiary of the open trading system.**

An obvious retort is that the TPP and the TTIP would reset the balance. They would solidify the economic integration of advanced democracies and frame the regulatory rules for everyone else. Failure would send a powerful message about waning US leadership and the incoherence of the west. China, already turning economic power into geopolitical punch by leading integration in Asia, would be the obvious winner.

Voters are not listening. Free trade is good for the world — for western consumers and for billions in emerging economies being hauled out of poverty. A US retreat will not signal the end to bilateral and smaller, regional, liberalisation agreements. China will do what it can to sign up its neighbours to regional alternatives to the TPP. But without the US, the basic momentum towards liberalisation will be lost. The danger then will be of a gradual slide backwards into outright protectionism.

There is no quick fix. A sustained period of growth and rising incomes would help. So, too, would **proactive policies** to cushion the impact of liberalisation on the losers. The US could start by reinvigorating the trade-adjustment assistance programme introduced in the wake of the North American Free Trade Agreement in 1993.

But the present politics of middle class discontent demands a response reaching well beyond better retraining schemes and jobs programmes. As long as **globalisation is seen as a project of the political elites** and the rich it will carry the seeds of its own destruction.