

The case for liberal trade remains as robust as ever

The task is to support adjustment and strengthen multilateralism

Lead Editorial

International trade has been an engine of growth for the world economy. But that engine is now sputtering. A good part of the explanation for this is failure — failure to understand the benefits of trade, failure to share its gains, failure to help those adversely affected, failure to update the global rules, and failure to sustain essential co-operation. **Donald Trump's administration made all this worse.**

Joe Biden's should now strive to rectify these failures. Over the past 60 years, the ratio of world trade in goods and services to world output has risen from 12 per cent to just over 30 per cent. It is no coincidence that this era has also experienced the fastest economic growth in history, a huge fall in the share of the world's population in extreme poverty and, for the first time since the industrial revolution, a decline in inequality among the world's households.

The superior performance of economies that embraced trade, such as South Korea and China, demonstrates its positive role in driving prosperity.

Yet trade is far from healthy. As the World Trade Organization has noted, growth in trade slowed sharply after the 2008 financial crisis and took another blow during the pandemic. The slowdown is partly due to the economic crises and the natural exhaustion of opportunities. But it is also explained by how long it has been since significant trade liberalisation, the rise of protectionism, and the election of Mr Trump as president, a *protectionist and fierce opponent of multilateralism*. In a recent book, **International Trade: What Everyone Needs to Know, Anne Krueger of Stanford University, a distinguished international economist, explodes the myths of Mr Trump's approach.**

No, one cannot reduce a country's overall trade deficit by attacking bilateral deficits. No, foreign exporters did not bear the cost of the tariffs Mr Trump imposed. No, the US will not

make the Chinese do what it wants by inflicting punishment unilaterally. No, liberal trade is not a plot against America. And no, protectionism was never going to bring back the vanished industrial jobs of the past. It is time to turn the page on this foolish episode.

In rethinking the way forward, the incoming US administration needs a three-fold approach, in line with its wider goals and priorities. First, it must proclaim that trade is no different from any other form of economic change, in creating winners and losers. A dynamic economy will function successfully and be legitimate politically only if the gains from change are widely shared and the people and localities hardest hit by it are helped. The aim must be to cushion the short-term hit to incomes, promote new activities and impart the skills needed to exploit new opportunities.

Second, it should embrace co-operation. Multilateral institutions offer a framework within which disputes can be managed and new and better rules developed. Crucially, the World Trade Organization needs to be revived from the near death in which Mr Trump has left it.

The appointment of Ngozi Okonjo-Iweala, a US and Nigerian citizen, as the new director-general, needs to be confirmed. The dispute settlement process should be revived, possibly under reformed principles. The US should also join a (perhaps renamed) Comprehensive and Progressive Agreement for Trans-Pacific Partnership, the successor to the Trans-Pacific Partnership, which Mr Trump abandoned. Most important, the US, EU and other significant powers need to reach a new modus vivendi on trade and related issues with China.

The US is right that the deal reached with China, when it joined the WTO in 2001, is now out of date. It is right, too, that China cannot be treated exactly like other countries. What is needed is a set of principles and procedures that define how trade is to be handled between superpowers that are so different from one another.

Uncoupling would be destructive, economically and politically. But so would an attempt by one side to compel the other to abandon its large ambitions or become identical to itself. Something more subtle must be agreed. These new agreements must allow the participants to protect their vital interests, while letting beneficial trade and investment proceed. None of this will be easy.

But it would be a huge mistake for the US and its allies to abandon the field of global co-operation on trade. Trade is good, but it must be managed. A new strategy is needed, at home and abroad. But trade should not be allowed to wither away.