

Trump threatens to tear up the trade rule book

Bypassing the World Trade Organisation would be a serious error

[Lead Editorial]

The framework of rules for global trade has withstood some fearsome ructions over the past few years. The rise of China, which aroused resentment about job losses across the world; the global financial crisis and the threat of renewed global protectionism; mounting inequality within some rich countries frequently blamed on trade: all have strained the World Trade Organisation's ability to keep the peace.

Happily, even though the WTO's rulemaking function has more or less ground to a halt, the laws set down in previous agreements have largely restrained destructive protectionist impulses. All that, however, could end with the US administration of Donald Trump, who regards trade deficits as prima facie evidence of rule-breaking by the counterpart country and holds institutions like the WTO in contempt.

The revelation that administration officials have asked the Office of the US Trade Representative to draft a list of unilateral measures to go after countries such as China is disturbing if not surprising. The US already has some of the world's more far-reaching forms of "trade defence" — antidumping and antisubsidy duties — in its arsenal. To go further towards unilateralism, rather than bringing cases to the WTO, threatens to irreparably harm the multilateral trading system as it currently exists.

There is little doubt that Mr Trump could inflict serious damage with the tools he inherits. Congress has seen fit to give the presidency far more destructive than constructive power. It requires special "trade promotion authority" for the White House to put a trade deal to Congress for an up-or-down vote. But the president on his own can use a variety of pieces of legislation to impose emergency import tariffs based on ill-defined concepts of national security, a "large and serious" balance of payments deficit, a national emergency or retaliation against "unjustifiable" restrictive practices.

Of course, these measures will be subject to challenge in US courts or the WTO's dispute settlement process. But there is always the possibility that Mr Trump will simply ignore a WTO ruling and treat any punitive tariffs imposed on US exports by the litigant trading partner as a hostile act.

This will do far more harm than good, within the US and without. The system has, more or less, worked. Under Barack Obama, the USTR became much more aggressive about taking China to the WTO, and won a string of cases including on rare earths, autos and auto parts and windpower equipment. The Chinese economy remains heavily distorted by state intervention, but by and large it has complied with the rulings of the dispute settlement process since it joined the WTO in 2001. Beijing has come to recognise WTO litigation is not an intrinsically hostile act but a way to defuse conflict.

Integrating a vast trading economy the size and dynamism of China's into the global trading system has not been easy. **But it would surely have been more confrontational and disruptive had many of those disputes not been mediated by the WTO.**

Given the time it will take to bring a case to the WTO against unilateral American protectionism, there will be a danger that trading partners will react to US measures with emergency defensive tariffs of their own.

The threat of a modern repeat of the disastrous Smoot-Hawley tariff, which kicked off the tit-for-tat trade protectionism of the Great Depression, has often been cited in recent decades. If these indications from Mr Trump's administration are followed through, it is closer than ever to coming true.